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INFORMAL SECTOR IN AN URBAN ECONOMY

A Study in Ahmedabad

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P r e f a c e

The role of informal and unorganised sector in development process has evinced keen interest in the academic and policy making circles for some years now. The interest has sometimes led to the evolution of a development ideology advocating an alternative to the pattern of development based on modern large scale and high technology production organisations. The development strategy based on this approach would require a shift in emphasis in favour of the tiny and informal sector units of production as they are supposed to provide the clue to a faster and more equitable process of development. The logical basis of this approach rests on the assumptions that the informal sector has a better potential of using labour which is abundantly available in a country like India and economising on capital which is a scarce resource; and, that the production on the basis of small and informal units tends to be more humane and equitable, and less exploitative. In any case, most of the developing economies have a large informal sector, even in the relatively organised urban sector and it is better to use it for development rather than dismantling it to build costlier production structures.

The underlying assumptions and the long term implications of a strategy based on an emphasis on the role of informal sector have, however, not been adequately examined. Information needed for such an examination is generally non-existent. The present study aims at making a beginning in this direction by collecting and analysing information on the structure of informal sector activities and labour market in Ahmedabad. Certain estimates given in the study, particularly those relating to the income generation in the formal and informal sectors, suffer from drawbacks of lack of adequate information, and consequently unavoidable methodological shortcuts, but, by and large, the study provides enough details and analysis to draw conclusions on the main questions of the role of informal sector in development and labour market implications of the dualistic economic structure. Besides, the study also attempts a fairly detailed examination of certain hypotheses on the operations of the informal sector labour market, which together with an earlier study on Ahmedabad labour market (T.S. Papola and K.K. Subrahmanian : Wage Structure and Labour Mobility in a Local Market, SPESR Ahmedabad and Popular, Bombay 1975) would provide a more or less complete portrayal of the city labour market. The effort would prove amply rewarding if it succeeds in throwing some light on the issues relating to informal sector, being debated currently.

The study of unorganised sector and labour markets have been subject to my interest for quite some time, but the most proximate pretext to plan this study was provided by a suggestion from the Town and Country Planning Organisation, Government of India, New Delhi to initiate a few studies on the structure of urban economies for use in policy making and financing of urban development. While the TCPO continued its interest in the study, necessary funds for conducting the study could not be arranged. At this stage the Urban Studies Group of the Indian Council of Social Science Research showed interest in the project and the Council decided to sponsor and finance the study. I am thankful to the ICSSR for their academic interest in the project and the generous financial support without which the study could not have been undertaken.

Major part of the study, particularly the field work for data collection, was completed while I was on the faculty of the Indian Institute of Management, Ahmedabad. The speedy completion of that part of the work was largely due to the excellent infrastructure facilities at the Institute. I am grateful to the IIM, Ahmedabad and particularly its Director, Dr. Samuel Paul for making these facilities available for the project. During May-July 1977, when I had to be away to take over as the Director of the Giri Institute of Development Studies, Lucknow, my friend and colleague Dr. Bakul H. Dhola-
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CHAPTER I

Concept and Significance of Informal Sector

It has always been recognised that the economies of town and cities, particularly in the developing countries do not consist of a monolithic structure of highly integrated and efficiently and equitably interrelated activities. While it is perfectly logical to postulate that there exists a variety and multitude of production organisations in an urban economy representing a continuum of size and other characteristics, a dichotomous mode of classification has been used most often to portray and analyse their structures. The phenomenon of the coexistence and persistence of the two sectors revealing structural dualism in urban economies in terms of size and mode of production organisations, technology, productivity and labour markets, has of late assumed special significance in the wake of widespread emergence of the belief that economic growth based on large scale and highly formalised economic structures is not the only, and necessarily the most desirable, way of development; a strategy of development emphasising the growth of smaller, unorganised and informal organisations may tend to be more quick-yielding and equitable.

This belief has its apparent justification in the following two facts : One, despite high rates of industrial develop-

ment and overall modernisation, the urban economies in most developing countries continue to have an increasingly large part of their activities in the non-organised sector. It is, estimated, for example, that, the employment ⁱⁿ the informal sector constitutes around 60-70 per cent in Nairobi¹ and Kumasi,² 50 per cent Jakarta,³ 45 per cent in Calcutta,⁴ Bombay⁵ and Ahmedabad.⁶ It would be unwise to disregard such a sizeable segment of these economies in any strategy of development. Second, this sector reveals certain positive features in regard with the capacity to generate employment and equitable pattern of distribution. The growth pattern based on an emphasis on this sector is, therefore, likely to be more effective in reducing poverty in urban areas.

The above approach represents one viewpoint on development strategy, which needs to be examined for the validity of assumptions underlying it and for its short and long term implications. Besides, there are some important aspects of urban development which add to the ^{significance} importance of studying the

- 1 ILO : Employment, Incomes and Equality : A Strategy for Increasing Productive Employment in Kenya, Geneva, 1972.
- 2 ILO : Employment Problems in the Rural and Informal Sectors in Ghana, Report of an ILO/JASPA Mission, Addis Ababa, 1977.
- 3 S.V. Sethuraman : Jakarta : Urban Development and Employment ILO, Geneva, 1976.
- 4 Harold Lubell : Urban Development and Employment : The Prospects for Calcutta, ILO, Geneva, 1974; and A.N. Bose : The Informal Sector in Calcutta Metropolitan Economy : ILO, Geneva, 1974.
- 5 Heather and Vijay Joshi : Surplus Labour and City : A Study in Bombay, Bombay, 1976.
- 6 Author's estimate.

informal sector of towns and cities. For example, an estimate of the income streams, income levels and income structure by activity, function and group of persons is necessary for starting any serious analysis of urban economies and for evolving a policy on urban development. While information on organised sector is available from various sources, our knowledge of the unorganised sector is highly limited and primarily impressionistic. And it would be highly unrealistic to plan for development of various urban services without a reasonably sound base of information on the sizeable segment called 'informal sector'.

Before attempting an analysis of the structure of the urban informal sector and examining its potential as an instrument of growth, a discussion on the concept itself would be pertinent. The two questions that we consider important at this stage are : is it analytically valid and operationally feasible to start with the assumption of a dichotomous character of the urban economies? and, what in fact constitutes the informal sector? □

I. Dichotomy in Urban Economies

The dualistic nature of urban economies has been used as a frame of analysis of economic structures and labour markets for quite some time now. Various classifications

such as organised and unorganised, modern and traditional, capitalist and subsistence sectors have been used for analysing the urban economies; while distinction between organised and unorganised, protected and unprotected, and regular and casual workers, has been used for analysing urban labour markets. Over and above, the large-small dichotomy has also been used very frequently, sometimes with precise cut-off points of size of capital and employment, but more often, in a vague and general sense. And formal-informal sector classification is the latest to arrive on the scene and has had a wide clientele for over five years now. All these dichotomous frames emphasise the fact of discontinuities in urban economic organisations and are ^{utilised} ~~used~~ to reveal and analyse distinguishing characteristics of the two sectors, quite often with a view to highlighting policies for growth of one sector in contrast with the other. Not many attempts have, however, been made to study the inter-linking and integration of the two sectors.

Despite the widespread use of the two way classification or urban economic organisations, it is also well recognised that the distinction is not always analytically clear, nor is it operationally usable for all purposes. In the first instance, it is argued, with substantial force, that there is a continuum of production activities; and, ^a ~~a~~ division of

an urban economy into two parts is arbitrary. In fact, the unorganised or informal sector enterprises may be in the process of transition and with time they would graduate to the other sector, thus leading to the disappearance of discontinuities.⁷ According to another view, which recognises the existence and persistence of discontinuities, the dichotomous classification is inadequate, as there are more than two well distinguishable sectors; for example, the informal sector itself could be broken down into ^{two} ~~the~~ sub-sectors : an irregular sector and the informal sector proper.⁸ In fact, the very wisdom of defining two sectors of an urban economy has sometimes been questioned on the ground that the researchers try to fit the empirical material into their intuitively fixed categories and characteristics; and such a priori determination of the analytical frame may not be reliable in so far as it tends to ignore the relations between the sub-sectors which may be most crucial in determining the functioning of the urban economy as a whole.⁹

7 Louis Emmerij, "A New Look at Some Strategies for Increasing Productive Employment in Africa", International Labour Review, September 1974.

8 Guy Standing : "A Trichotomous Model of Urban Labour Markets", in Subbiah Kanappan (ed.) Urban Labour Market Behaviour in Developing Countries, International Institute of Labour Studies, Geneva, 1977; also T.S. Papola, "Typologies of Labour Markets within an Urban Labour Market", ULM/DP/9, Research Conference on Urban Labour Markets in Developing Countries, International Institute of Labour Studies, Geneva, October 1974.

9 Chris Gerry, Petty Producers and Urban Economy : A Case Study of Dakar, Geneva, ILO, 1974 (Mimeo). Jan Breman emphasises the segmented nature of the entire labour market rather than divide the urban system into two sectors : Jan Breman : "A Dualistic Labour System : A Critique of the 'Informal Sector' Concept", Economic & Political Weekly, November 27, December 1 and 11, 1976, pp. 1939-1944.

It is, however, possible to incorporate the above points in the analysis of urban economies, within a dichotomous frame of reference. The hypotheses relating to the continuum, subsectors within sectors, and interrelationships between the sectors should, as a matter of fact, form an integral part of any attempt to study the structures of an urban economy. That does not reduce the usefulness of the two-sector frame as a starting point of analysis. What is, in fact more important, is the way in which the two sectors are defined; and the analytical veracity and operational usability of the distinction. It is, therefore, worthwhile to look at the various classifications used from time to time, and examine how the latest of them - formal-informal sector dichotomy - is made to have advantage over others.

The most commonly used classification is the one which divides the economy into organised and unorganised sectors. As a classification of economic activities, one would intuitively presume that the distinction refers to the fact of organised or unorganised character of producers. In fact, however, it has not meant so; the distinction has been made on the basis of certain empirical facts of size, nature of market and relation with the State. In one of the most recent attempts to distinguish between the two sectors, Heather and Vijay Joshi have laid down the following distinguishing characteristics of the two sectors¹⁰ : One, the organised

10 Heather and Vijay Joshi, op cit, pp.44-46.

sector "contains large manufacturing firms operating in oligopolistic markets sheltered from foreign competition by high tariffs and quantitative restrictions, selling their products mainly to middle and upper income groups. The unorganised sector contains a very large number of small producers operating on narrow margins in highly competitive product markets; selling a variety of goods and services mainly to low income groups" (emphasis added). Second, the organised sector firm used capital intensive, imported technology, in contrast to labour intensive indigeneous technology used by unorganised sector producers; labour productivity in the former is, therefore, much higher than in the later. Technology of the organised sector firm required routinised and formalised work conditions, while the work situation in the unorganised sector is quite informal. Third, the organised sector firms have access to and influence over the machinery of the Government, and, therefore, to official protection and benefits, which are not available to the onorganised sector producers. Similar is the case with finance and credit from the organised banking sector.

The above description does well to highlight certain basic distinguishing characteristics of the two sectors. But like all other attempts to distinguish, there are two basic problems, with the bases of classification proposed by Joshi. One, some of the central variables like size, degree of com-

petition in the product market and capital intensity of technology are continuous variables and do not permit a clear discontinuity at the point of division. Second, since the attribute of the degree of organisation does not enter into the classification as a basic distinguishing characteristic, designating it as 'organised-unorganised' dichotomy has no special significance; it could as well be termed 'large-small', 'modern-traditional', or 'capital intensive-labour intensive' activities. The scheme, however, does provide a reliable and usable basis for classifying the workers and the labour market. As Joshi point out, a salient feature of the organised sector is its relatively protected workforce and the major source of this protection lies in the ~~organised~~ unionised character of the workforce of this sector. This characteristics had been highlighted in the analysis of labour markets, among others, by Dipak Mazumdar.¹¹ Besides ~~the~~ unionisation, there are other characteristics of the organised sector such as application of certain legislations, formalised character of recruitment etc., which provide protection to workers in this sector in matters of conditions of work and wages. Workers from the unorganised sector find it difficult to cross the barriers

11 Dipak Mazumdar, 'Notes on the Informal Sector' in Subbiah Kanappan, (ed.) op cit; and Dipak Mazumdar, The Urban Informal Sector, World Bank Staff Working Paper No.211, Washington, 1975.

of entry to the organised sector. These factors make the distinction between ~~in~~ the two sectors rather sharp so far as the labour market behaviour is concerned, but they leave the distinction between the two sectors of economic activities rather blurred.

Mode of production, capitalist and subsistence, has also been used sometime as a basis of classifying urban production organisation. According to McGee, "most cities in the Third World can be seen as consisting of two juxtaposed systems of production - one derived from capitalist forms of production, the other from peasant system of production."¹² The classification based on this approach could well take care both of the economic activity and labour market distinction between the two sectors simultaneously. This approach has, however, not found much favour with the researchers in the field primarily for two reasons. One, the research workers seem to have easily given in to the skepticism expressed by its critics that in the developing economies most of the production

12 T.C. McGee, "Peasants in the Cities : A Paradox, a Paradox, a Most Ingenious Paradox", Human Organisation, (Washington), Summer 1973, p.138. Bienefeld uses the distinction between capitalist and pre-capitalist modes of production, but emphasises their interaction and ultimate integration into a capitalist system. See Manfred Bienefeld 'The Informal Sector and Peripheral Capitalism : The Case of Tanzania', IDS Bulletin, Vol.6, 1975, pp.53-73. Ley's sees development of 'autonomous local capitalism' in the attempts to promote informal sector. See C. Ley's 'Interpreting African Underdevelopment : Reflection on ILO Employment, Incomes and Equality in Kenya', African Affairs, 1973, pp.419-429. For Bose, (op cit. 5.2) the differences between the two sectors can very well be compared with those between the mother country and colony, characterised by 'unequal exchange' under colonialism and neo-colonialism. ~~See~~ Breman (op cit. p.1875) favours the distinction based on mode of production.

organisations are not amenable to the classification based on modes of production and most of the producers are not easily classifiable as either capitalists or wage earners. Second, the Marxist scholars have not found the theme of the structure of urban economies interesting enough, and non-Marxist scholars have mostly shown an abhorrence to the use of concepts like classes or mode of production. As a consequence, the scholars have preferred the use of such neutral terms like the "upper" and the "lower circuits" of the economy¹³ or "firm centred economy" and "bazaar type economy"¹⁴ which succeed in distinguishing the two sectors in a particular case and for a particular purpose, but do not help in evolving an analytical scheme of classification with general validity.

Among the rather vague distinctions, the one using "modern" and "traditional" dichotomy has been used most often in literature on development. Basically, it seems that the dichotomy refers to the technology used rather than organisation of production.¹⁵ But, probably following the Arthur Lewis lineology of development models, the dichotomy also is found to subsume organisation, including mode of production, quite often. In most cases, however, the terms "modern" and

13 Milton Santos, The Shared Space : The Two Circuits of Urban Economy and Their Spatial Repercussions, London, Methuen, 1975.

14 Clifford Geertz, Peddlers and Princes : Social Change and Economic Modernisation in Two Indonesian Towns, Chicago and London, University of Chicago Press, 1963.

15 S.V. Sethuraman, "The Urban Informal Sector : Concept, Measurement and Policy", International Labour Review, July-August 1976, p.72.

"traditional" have been used vaguely without giving any precise meaning to them, and it has more or less been taken for granted that the audience knows what is meant. In effect, the disaggregation of economy into the "traditional" and "modern" sectors have come to be identified with agricultural and industrial sectors in of a developing economy. While the dichotomy may be well suited for such a disaggregation, it is ill-dopted, as pointed out by John Weeks,¹⁶ for studies on the urban economies of the less developed countries. The classification in practice tends to include all "enumerated" labour force in the "modern", and all "unenumerated" or "residual" labour force in the "traditional" sector; and enumeration as such is no valid basis for labelling activities and labour force with value-loaded titles. For, the use of "traditional" as a label for "unenumerated" suggests that the concerned sector is necessarily non-dynamic, and by implication, the "modern" sector is inherently dynamic. Louis Emmerij objects to the use of "traditional", as a term of disparagement, for, he feels that^{it} is the product of an alien culture that sees "tradition" as detrimental to development rather than an integral part of nation's culture and identity.¹⁷

¹⁶ John Weeks, "Policies for Expanding Employment in the Informal Urban Sector of Developing Economies" International Labour Review, January 1975, p.2.

¹⁷ Louis Emmerij, op cit. p.202.

II. The Informal Sector

In view of the above limitations of the earlier classifications, some of the observers have argued for the use of formal-informal sector dichotomy as a meaningful and congenient method of analysing the structures of urban economies.¹⁸

Formal-informal sector dichotomy has evolved mainly out of the widespread concern of research makers and policy makers for the small and unprotected producers in the urban economies, who on account of their disadvantaged position are unable to derive the benefits of development and contribute to the process of development to the full extent of their potential. Yet they are found to constitute a substantial part of the urban economic activities in towns and cities of developing countries and are engaged in the production of useful goods and services.

The formal-informal sector dichotomy was first used by Keith Hart in a study of urban Ghana.¹⁹ The study identified a number of income and employment generating activities in the "unenumerated" sector of urban settlements. The workers engaged in them mainly worked as self-employed as against the wage labourers of the "enumerated" sector; the new entrants to the urban labour market, particularly migrants from rural

¹⁸ John Weeks, op cit. p.2.

¹⁹ Keith Hart, "Informal Income Opportunities and Urban Employment in Ghana", Journal of Modern African Studies (London), March 1973, pp.61-89. For a critical review of the literature on the concept of informal sector, see Jan Breman, op.cit. pp.1870-1875.

areas were forced to work in the informal sector partly due to lack of adequate opportunities in the formal sector and partly due to the workers' lack of skills and experience required for the jobs in the formal sector. The terms, informal income generating activities, unorganised sector, unenumerated sector, self-employed individuals and urban proletariat are used by Hart in his study more or less alternately and interchangeably.

The ILO-UNDP Employment Mission to Kenya adopted the term "informal sector" for analysing the employment situation and for working out a strategy for employment ^{generation} strategy in Kenya.²⁰ According to this study the informal sector has the following characteristics : easy entry for the new enterprises, reliance on indigenous resources, family ownership, small scale operations, unregulated and competitive markets, labour intensive technology and informally acquired skills of workers. The formal sector has the obverse of these characteristics. It is the enterprises and not the individuals that are classified into the formal and informal sectors, which is one positive step ahead in clearing the confusion in classification; but the basis of classification into two sectors still remained vague.²¹ At some points, the report included mainly squatter

20 ILO : Employment, Incomes and Equality : A Strategy for Increasing Productive Employment in Kenya, Geneva, 1972.

21 Cf. Sethuraman, International Labour Review, 1976, op cit. pp.71-72.

area enterprises as belonging to informal sector while at other the report appears to include all enterprises not recognised by the Government in it. Further, while the characteristics proposed are particularly appropriate to Kenya, they appear to be less relevant to the general case.²²

John Weeks attempted to provide an analytical base to the highly descriptive nature of the distinction between formal and informal sectors. According to him, the distinction is based on "the organisational characteristics of exchange relationships and the position of economic activities vis-a-vis the State. The nature of exchange relationship is primarily a consequence of the economic insecurity of operations in the informal sector, which, in turn, is a direct consequence of the latter's limited access to the resources of all types."²³ In his scheme of classification, position of enterprise vis-a-vis the State emerges as the main distinguishing feature between the two sectors. All government activities fall in the formal sector. The formal sector private enterprises are officially recognised, fostered, nurtured and regulated by the State. According to Weeks, the official favours to the formal sector enterprises take many forms : restrictions of competition and

22 Ibid. p.72.

23 John Weeks, op cit. pp.2-3.

reduction in risk and uncertainty through tariff and quota protection for import substitution industries, tax rebates and holidays, low interest rates, selective credit controls and licensing of operations. Restricted competition, the privileged access to resources such as foreign technology, foreign exchange and local capital together provide disproportionately high rewards from operating in this sector.²⁴ Operations in the informal sector do not carry these benefits, they are outside the system of official regulations and benefits; have no access to formal credit institutions and foreign technology. Sometimes, operations in this sector are carried out, illegally, for the official limitations make it difficult for informal sector producers to have legal access to certain activities which are performed by enterprises in the formal sector with legal sanction.

It is this system of privileged access to resources according to Weeks that has led to certain characteristics of the formal sector : large-scale of operations, capital intensive techniques, and high wage rates and salary scales. The private formal sector is also often characterised by foreign ownership and imported technology and intermediate goods, and it usually produces for the sophisticated market. The informal sector, on the other hand, deprived of privileged

²⁴ Ibid. p.3.

access to resources, is characterised by small scale operations, labour intensive techniques, low levels of incomes and indigeneous ownership.

The above distinguishing characteristics of the two sectors are also highlighted by Heather and Vijay Joshi while distinguishing between organised and unorganised sectors in Bombay under the three major heads : market structure, technology and relationship with Government.²⁵ We find that the various characteristics regarding size, technology, ownership, product market, labour market and incomes are enumerated as characteristics distinguishing informal sector from formal sector in all attempts to analyse the former. John Weeks, however, seems to argue that the basic source of these differences lies in the government system of regulation. Validity of this proposition seems rather doubtful. Variety of production organisations is a universal and inherent characteristics of any economy irrespective of the degree and nature of state intervention. The small-large differences arise primarily due to the reasons of private ownership and technology, and the market system of production tends to make the differences sharper by rendering competition increasingly imperfect and leading to the emergence of oligopolistic and monopolistic situations. Differential access to private resources in itself is an adequate condition for increasing inequalities, polarisation of scale and organisation of production into extremely large

25 Heather and Vijay Joshi, op cit. pp.44-46.

and extremely small; the State regulation of production, and distribution of certain resources could, of course, lead to an accentuation of the cleavage.

The distinction based on State recognition and regulation, however, seems more relevant if one is interested in analysing the dualistic structure of the urban labour markets. Again illustrating the point from the Indian situation, the distinction between the formal and informal sector employment at least in the manufacturing sector can be made, on the basis of whether the employing enterprise is registered under the Factories Act or not. For, once the enterprise is a registered Factory, the conditions of work, get regulated. The registration is obligatory as size of employment reaches 10 workers with use of power and 20 workers without use of power. The recruitment, working conditions, hours of work, leave, payment of wages, dismissals, etc. are not formalised in the case of non-Factory organisations. As the distinction is based on size of employment and security of job, unionisation is also a characteristic only of the Factory labour force. Thus the formal sector workers have a 'protected' labour market, while those in the informal sector are exposed to uncertainty and whims of the employers. Mazumdar has brought out the distinction sharply, focussing on the fact that entry into the informal sector labour market is unrestricted while that

in the formal sector labour markets is restricted by artificially raised hiring standards, norms and procedures.²⁶

It may, however, be mentioned that the formal and informal nature of labour market sometimes cuts across the two types of enterprises - Factory and non-Factory. The Factory enterprise also have some workers engaged in them recruited on an informal basis and working on irregular basis. The case of sizeable number of casual workers, along with a core of stable regular workers, in the Cotton Textile Industry in Bombay, as brought out in a study by Mazumdar, is a pertinent example of this phenomenon.²⁷ There is need to distinguish, therefore, between the informal sector labour market and informal labour market in the urban economies. The scope of the former would be confined to the workers in informal sector establishments, howsoever defined, and the latter would, in addition, include casual, contract, and irregular workers in the formal sector establishments. 3184

III. Characteristics of Informal Sector Units

The foregoing discussion of the bases of distinction between formal and informal sector, and characteristics of

- 26 Dipak Mazumdar, 'Notes on Urban Informal Sector', op cit. is/
The hypothesis of easy entry to informal sector, however, contested by Jan Breman (op cit. p.1907), on the basis that many activities in this sector are found to be dominated by a cohesive group each, and connection with someone in this group is necessary to get entry into these activities. Also see M. Bienfeld 'The Self-Employed of Tanzania', IDS Discussion paper 54, Sussex, 1974 and McGee, op cit. pp.34-35.
- 27 Dipak Mazumdar, 'Labour Supply in Early Industrialisation - The Case of the Bombay Textile Industry', Economic History Review, August 1973.

informal sector does not enable us to come to a precise definition of the informal sector. We are still at a stage where we could do nothing substantially more than repeat what Sethuraman has said : "The informal sector, as its name suggests, is not formal in its character."²⁸ But we do have a number of variables characterising the informal sector, either derived on a a priori basis or from empirical studies of several urban areas in developing countries. It must be mentioned that the main focus of the analysis has been on suggesting policies for mitigating the disadvantages of the informal sector, primarily manifest in its lack of access to the resources of all kinds : capital, finance, modern technology and skills.²⁹ The concern has been particularly voiced in documents and reports prepared under the World Employment Programme of the International Organisation, beginning with the report of the Employment Mission in Kenya, which popularised the concept of informal sector in employment and development literature. The logic for concern for development of informal sector, as expressed in the Kenya Report, is summarised by Sethuraman, in following words : "The basic reason for the introduction of this term in Kenya Employment

28 S.V. Sethuraman, "The Informal Sector in Developing Countries : Some Policy Implications", Social Action, July - September 1977, p.196.

29 John Weeks, op cit.; Heather and Vijay Joshi, op cit.; S.V. Sethuraman, "The Urban Informal Sector in Africa", International Labour Review, November - December 1977, p.344.

Mission Report followed from the new widely recognised fact that it takes a very long time for the benefit of general development policies to trickle down to the poorest sections of the population. Effective development needs to be focussed directly on a specific "target" population and the Employment Mission considered that perhaps the most important such target group in urban areas was what it described as the informal sector."³⁰ The identification of the characteristics of informal sector enterprises have accordingly followed this concern, and have mostly been derived from the empirical studies conducted in various cities in developing countries.³¹

Thus 'informal sector' is a convenient way of designating a segment of the economy having certain characteristics which lead to unfavourable conditions for the growth of enterprises and activities operating in this segment. The term has no specific analytical meaning in itself; it is used "for lack of better alternative."³² It has an advantage over the terms derived from earlier dichotomous classification of activities,

30 S.V. Sethuraman, International Labour Review, July - August 1976, p.69.

31 A number of studies, besides the Kenya Report have been prepared under the ILO auspices with this end in view; e.g., Harold Lubell, op cit.; A.N. Bose, op cit.; Heather Joshi, Harold Lubell and Jean Mouly : Abidjan : Urban Development and Employment in Ivory Coast, ILO, Geneva, 1976; Kalmann Schaefer : Sao Paulo, Urban Development and Employment, ILO, Geneva, 1976; S.V. Sethuraman : Jakarta : Urban Development and Employment, ILO, Geneva, 1976.

32 S.V. Sethuraman, International Labour Review, 1976, op cit., p.75.

such as "unorganised" "traditional" etc., to the extent due to its greater vagueness it becomes more inclusive and flexible to suit different empirical situations. Let us, therefore, examine the various reported characteristics of the informal sector from the viewpoint of their suitability (i) to demarcate the 'informal sector' as a distinct analytical and empirical category, and (ii) to provide a basis for supportive policy measures with a view to helping the disadvantaged. The following are the most often observed features identified as characteristics of informal sector in the studies on the subject.

1. Small Size of Operations

All observers agree that the informal sector consists of small establishments. The "smallness" may have differing connotations in different empirical situations. The demarcation is generally made on the basis of size of employment. On the one hand, it is sometimes suggested that single worker establishments, and those with only self-employed and own-account workers form the core of the informal sector.³³ On the other hand, it is felt that this would unnecessarily restrict the scope of informal sector, as many of the establishments using hired labour also reveal the disadvantaged characteristics. From the empirical viewpoint, 'enumeration'

³³ Cf. Hart, *op cit.* p.66, McGee, *op cit.* p.33, and M. Bienefeld, "The Self-Employed of Tanzania" Discussion Paper 54, May 1974, IDS, Sussex Introduction (iii); Breman (*op cit.* p.1873) disputes this proposition on the basis that self-employed professionals hardly fit in the informal sector and poorly paid wage employees of small establishment are no better off than self employed.

or 'registration' has been considered a good base for the distinction between the two sectors; and it is well known that the regular official enumeration and registration is applied to the units above a given employment size only. It is on this basis that a general cut-off point of size of employment is suggested as 10 workers.³³ Small size of operations is considered a necessary condition for inclusion of an enterprise in the informal sector, because "smallness" is usually accompanied by several other attributes which make such enterprises disadvantaged.³⁴ To the extent this association is not observed, a policy of protection and support to informal sector defined as small sector would not meet its basic purpose. For example, if small enterprises have high capital intensity, high rate of return on capital due to low wages, and an assured market among the higher income groups and foreigners, for they may be producing limited quantity of luxury and art goods with inelastic demand, the size as a basis of assistance would not serve the employment or distribution objectives on which the entire concern for informal sector is based.

2. Informal Structure and Family Ownership

Informal sector enterprises obviously do not have a formally structured organisation; there is limited functional

³³ Sethuraman : 'The Urban Informal Sector : Concept, Measurement, and Policy', op cit., p.84. 76.

³⁴ Ibid. p-76.

division of labour and specialisation; and most of the management and supervisory and sometimes some of the production, functions are performed by the proprietor. There could also be extensive use of family labour. All these characteristics, however, are not ^{always} found to go together. Small size itself makes it necessary and possible to run an organisation without a structured division of labour and management hierarchy; even the organisations with wider ownership and using hired labour may reveal these characteristics if their size of operations is not large. On the other hand, large, even though family owned, enterprises cannot be run on the basis of informal and unstructured organisation, and undefined functional division of labour. Structure of organisation is thus mainly a function of size and is not necessarily related with the pattern of ownership. The distinction between the private formal and informal sector on the basis of indigenous and foreign ownership is also not valid in countries, such as India, where the indigenously owned sector constitutes a major part of the organised industry.

3. Non-Modern Technology

Similarly, distinction between formal and informal sector on the basis of use of imported foreign technology,³⁵ and adopted and indigenous technology appears to represent a

³⁵ Heather and Vijai Joshi, op cit. p.45.

rather extreme viewpoint. Technology used in large textile mills in India can no longer be considered foreign, yet to include these mills in the informal sector because they use indigenous technology would make an absurdity of the informal sector concept. The intent of using technology as a variable in distinguishing informal from formal sector is to highlight that the informal sector units use labour intensive, predominantly manual, low productivity techniques of production, as compared to capital intensive, highly mechanised and high productivity ones used by the formal sector units. The question of imported versus indigenous technology is rather incidental to the issue, and is perhaps used to deliberately exaggerate the helplessness and disadvantages of the informal sector.

From the policy viewpoint, it is also important not only to identify the technology, but also reasons for its use or non-use in a particular sector. In the first instance, the technology varies basically due to the nature of the product, and only partly with the size of enterprises within the same product group. Secondly, an informal sector producer, may not use capital intensive, modern technology, either because it does not have access to it or because it does not suit him in the given relative cost position of capital and labour as he hires labour at a much lower wage rate than the formal sector employers. Providing assistance for technological

improvements would help the informal sector units in the former situation; but not in the later.

In the informal sector literature, the technology used in this sector seems to have been presented both as an asset and a liability : one of the bases on which a case is made out for a favourable treatment of this sector is its labour intensive technology; and one of its main disadvantages are also found to consist in the low productivity of its technology. Here lies a basic contradiction in terms of policy towards this sector : preserving its technology would imply support to low-efficiency techniques; and modernising it would imply losing on the employment advantage of this sector, or even wiping out the informal sector to the extent a non-modern technology is considered as one of its essential characteristics. Preservation of existing technology would be quite appropriate if it is labour intensive and also generates reasonable levels of productivity and earnings.³⁶ In other cases, a trade-off is implicit and will have to be decided on the basis of the policy makers' preference for low-productivity/earning employment or higher productivity.

4. Lack of Access to Government Favours

In the formal-informal sector distinction the informal sector is portrayed as having rather rough treatment in the

³⁶ This is reported to be the case in some African countries and also in Jakarta, by Sethuraman, in 'Urban Informal Sector in Africa', International Labour Review, November-December 1977, p.347, and Social Action, op cit., p.203.

hands of the government. First, only formal sector enterprises are reported to have access to resources controlled and distributed by the government : thus advantages of organised capital market, bank finance, foreign technology, imported raw material, protection from foreign competition, etc. are not available to the informal sector enterprises.³⁷ Not that these facilities are officially denied to the informal sector units; they are not able to avail of them because of their meagre material resources. Even when the governments have tried to mitigate some of their disadvantage by giving them a preferential treatment,³⁸ the benefits have not gone to the smallest of the informal sector establishments, for the reasons of their inability to cope up with the official procedures for obtaining them.³⁹

The informal sector units have also been found to enter certain activities requiring legal permission without obtaining it or to acquire certain inputs requiring license from the illegal market, as "a consequence of official limitation of access to the formal sector."⁴⁰ "The bureaucratic procedures which have to be followed to obtain scarce inputs, such as

37 John Weeks, op cit., p.3; Heather and Vijay Joshi, op cit., p.46.

38 Eg. in India, as also pointed out by John Weeks in op cit., p.5.

39. T.S. Papola, Small Scale Industries in U.P., GIDS Occasional Paper No.2, Giri Institute of Development Studies, Lucknow, (Memo) 1978. Some of the observes feel that programmes of stimulating industry in the informal sector are of little practical use. See Gerry, op cit. p.74 and Bose, op cit. 3.33-3.35.

40. John Weeks, op cit., p.3.

foreign exchange, are complicated enough to put them at serious disadvantage or force them into riskier ~~black mar~~^{black} transactions.⁴¹ Similarly, many of the informal sector establishments operate on pavements, crowded streets, and odd places due to lack of suitable space that can be had within the means they possess, and the government quite often forces these "enterprises to move on account of overcrowding, health considerations, traffic congestion, environmental or aesthetic factors, or because the land they occupy does not belong to them."⁴² Consequently, they feel insecure in these operations and are afraid of the harrassment and punishment by the public authorities. The governments' attempts to enforce certain regulations are naturally considered by these enterprises as "hostile" conditions making their operations difficult.⁴³

It seems that in their enthusiasm to support the expansion of the informal sector, some observers have tended to undermine certain other important policy considerations. Even if it is granted that the informal sector employs people, produces useful goods and services and provides income generating opportunities particularly to the poorer groups of population, the question of public intervention in economic and social

41 Joshi and Joshi, p.46.

42 Sethuraman, 'The Urban Informal Sector in Africa, op cit., p.345.

43 Sethuraman, Social Action, op cit., p.198.

matters cannot be decided upon only on this consideration. Nor can laws and regulations enacted with wider socio-economic considerations in view, be allowed to be defaulted because the defaulters are disadvantaged. Many a time, the certain activities may be carried out illegally not necessarily because of the disadvantaged position of the operator but because of higher profitability of operating illegally than with legal sanction. Dealingⁱⁿ quota, licenses, foreign exchange are examples of this type. It is not so much the lack of access to and conditions allocated by the government through licensing regulation that makes the informal sector units disadvantaged, as the problems they face in availing of the facilities and resources which are made available to everyone without prior permission from the government. Bank credit, space, electricity, water etc. are the examples of such services and inputs which are not supplied on a government licence, yet the informal sector units are not able to avail of them adequately. The situation is a result of uneven distribution of private resources, which seems to directly determine the distribution of the benefits of public resources as well. It is a basic contradiction of a private enterprise economy characterised with extreme extent of inequities, that even the State measures to reduce them often result in accentuating them.

5. Competitive and Unprotected Product Market

It is also not always true that the informal sector produces goods and services of general use while the formal sector enterprises predominantly cater to the demands of high income and sophisticated sections of population and foreign markets; nor do all informal sector enterprises operate in a competitive market and all formal sector enterprises in an oligopolistic and protected market.⁴⁴ Personal services, of course, are one of an important example of an informal sector activity catering to the needs of high income groups.⁴⁵ Then there is the whole range of artistic handicrafts produced in the informal sector in a country like India. Textile clothing, washing soap, matches and many other items of mass consumption are produced both in the formal and informal sector. The formal sector products, of course, have an advantage of brand names and better marketing networks, which render the market of each firm in this sector somewhat non-competitive; but a degree of competition does exist among the producers within the formal sector. A large number of formal sector units, other than multinationals, public sector enterprises and large private indigenous enterprises, operate in a highly competitive market as they are very large in number

⁴⁴ The features of product market have been highlighted as important distinguishing characteristics of the two sectors by Joshi and Joshi (op cit., p.45) and John Weeks (op cit. p.3).

⁴⁵ Joshi and Joshi pp.44-45.

and none is large enough to influence the market. The producers of artware and handicraft goods in the informal sector on the other hand, operate in a market mostly devoid of any competition; the actual producers, viz., the workers, in these activities, of course, do not get adequate share of the benefits of the non-competitive market, as contractors and middlemen usurp most of the surplus.

Still, it is, by and large correct to surmise that the informal sector establishments are not able to realise the same revenue per unit of their output from the market as do the formal sector producers. The difference is not so much on account of the nature of demand for the product and the nature of market faced by the firms, but the relative lack of holding capacity and marketing arrangements available to the informal sector enterprises; which can again be ascribed to their small scale of operations and meagreness of resources. They sell to whatever buyers are at hand at the time their product is ready for sale; and, therefore, are not able to realise full value of their product.

6. Unprotected Labour Market

The labour market characteristics of the two sectors, contrast more sharply than any other characteristic used as a basis for dichotomous classification of the urban economic activities. The labour market for the informal sector is

unregulated and highly competitive on the supply side, with absolute freedom to entry, while that in the formal sector is regulated and has entry restricted on the basis of standard hiring norms and formalised hiring procedures. The supply of labour in the informal sector consists of mostly new entrants in the labour markets - in-migrants or young persons entering the labour force, who aspire for jobs in the formal sector, but finding the opportunities for it limited and entry restricted, start doing something or the other in the informal sector either as self-employed, part time workers, apprentices or full time workers in small establishments. Consequently, the informal sector bears the brunt of excess labour supply which tends to lead to a situation of significant underemployment⁴⁶ and depressed wages in that sector, while the formal sector workers do not feel the pressure of excess supply, as their wages and conditions of work are regulated. Their jobs are secure and a level of wages assured, while those in the informal sector suffer not only from low wages, but also vicissitudes of market fluctuations and whims of their employers. A labour market thus functions in a free competitive sense in the informal sector, wage rates get set not only on the basis of labour market conditions, but also to clear the market,⁴⁷

⁴⁶ Mazumdar, 'Notes on the Informal Sector' op cit.

⁴⁷ T.S. Papola, "Wage Determination in the Unorganised Sectors in Urban Areas : A Framework for Analysis", Gujarat Economic Conference Papers, Gujarat Economic Association, Ahmedabad, 1976.

while wages in the formal sector establishments are rather insensitive to the labour market conditions.

Earnings in the informal sector are relatively very low as compared to the formal sector, almost half or even less; yet they are found to be still higher than what the migrants from rural areas could have earned at the place of their origin.⁴⁸ Basically, it is the formal sector wages and conditions of work that attract migrants to the city, but it is the informal sector which holds them there. The slow pace of growth of the formal sector results into lack of opportunities for the informal sector workers to move up to the formal sector, and thus the dichotomous segmentation of the urban labour markets persists. A faster growth of the formal sector would, however, tend to reduce the differentiation between the two labour markets, to that of degree rather than of substance.

IV. Issues in 'Informal Sector Strategy'

The above discussion on the various attributes of the urban 'informal sector' suggests that it is difficult to identify it as a distinct analytical category; the various characteristics attributed to it are not necessarily consistent with each other, nor are they to be found universally in different empirical situations. Nor do, these characteristics

⁴⁸ Sethuraman, Social Action, op cit., p.203.

provide a clear identification of the 'informal' sector as the only and certainly disadvantaged sector deserving supportive policy measures. Yet it is an undeniable fact that a sizeable segment of the urban economies, consisting of self-employed individuals, and small establishments, engaged in the production of useful goods and services and providing employment to a substantial part of the urban labour force, suffers from severe technological, marketing and other handicaps, and, is not able to derive the benefits of public services and support mechanism; and is, consequently, characterised by low productivity and earnings of those engaged in it. Most of the urban poor have their livelihood in this sector. From the policy viewpoint, which has been the main motivation behind the development of the concept of informal sector, this sector needs to be identified and suitable measures need to be devised to enable ~~this~~ ^{it} ~~sector~~ to raise its productivity and earning levels, and to grow fast with a view to absorbing the fresh entrants in the urban labour market, either as a result of natural population growth or in-migration from rural areas.

It is ~~generally~~ observed that the features attributed to the informal sector are generally associated with the lack of adequate resources manifest in the small size of operations. As a matter of fact, the disadvantages ascribed to the informal sector are primarily due to the small size of establishments.⁴⁹

⁴⁹ Sethuraman, 'The Urban Informal Sector : Concept, Measurement and Policy', op cit., p.76.

Therefore, if the informal sector is devised as a concept to identify the "target group" for policy purposes, the most practical way of identifying it is to start with the smallest of the enterprises, say those employing upto 10 workers, self-employed or hired.⁵⁰ Other characteristics of these enterprises attain relevance depending on the policy questions being considered and policy measures being suggested, which means that it would be difficult to evolve a uniform policy for all types of enterprises in the informal sector.

The major policy questions in relation to the informal sector are : to what extent this sector is capable, provided appropriate policies are adopted to mitigate its disadvantages, to provide productive employment to increasing number of urban job seekers? Will not the policies to promote growth of informal sector enterprises lead to their 'formalization' and thus disappearance of the advantages that they offer as small informal establishments? Should the strategy be that of promoting informal sector in preference over the formal sector or should it involve an integrated development utilising the potential of linkages between the two sectors? Ultimately, is informal sector thought of as an instrument of growth and employment generation in the short-run only or a dichotomous model of urban economy is thought as a long term policy goal as well?

⁵⁰ Sethuraman has considered it as the basic element in the list of criteria for identifying informal sector enterprises (Ibid. p.81.)

To the extent the disadvantage of the informal sector consists primarily in the lack of its access to some basic inputs like space, electricity, and working capital finance, and in their inability to market their product profitably, the expansion of this sector with appropriate government help in these respects, would lead to increasing productive employment. But if their disadvantage lies basically in technological backwardness, their salvation may be in modernisation of technology which may result in reduction in employment potential per unit of capital and output. Further if in certain activities, it is the small scale of operations that is technologically leading to the non-viability of the enterprise, scale enhancement and consequent formalisation would have to be attempted. Next, a sizeable segment of the informal sector is dependent on the formal sector for marketing of its product and acquisition of technology. A strategy of independent growth of informal sector, without utilising the intersectoral linkages⁵¹ may lead to the decline of this segment of the informal sector. A growth pattern not linking the two sectors, besides ignoring opportunities for growth to some extent, would also tend to further develop the schism between the two sectors and thus leading to further cleavage between the earnings and conditions of work in the two sectors.

51 For a discussion of intersectoral market and technological linkages, see, Susumu Watanabe, Technological Linkages Between Formal and Informal Sectors of Manufacturing Industries, World Employment Research Programme, Working Paper 34, 1978; and T.S. Papola and R.S. Mathur, Inter-sectoral Linkages in Manufacturing : A Study of Metal Engineering Industry in Kanpur, Gird Institute of Development Studies, Lucknow and ILO, Geneva, 1979.

CHAPTER II

Informal Sector in Ahmedabad :

An Estimate and Method of Study

The present study aims at examining some of the major issues discussed in the earlier chapter in the empirical setting of Ahmedabad. More specifically it attempts :

- i) an approach to empirically identify the informal sector in an urban economy
- ii) a portrayal of the structure of informal sector in terms of its various segments
- iii) an estimate of the contribution of informal sector in the income and employment generation in the city economy
- iv) a portrayal of the economic and non-economic characteristics of the informal sector units
- v) an examination of the income and employment generating capacity of the informal sector vis-a-vis the formal sector, as well as the various segments of the informal sector in relation to each other
- vi) a description of the socio-economic characteristics of the workers in the informal sector
- vii) an examination of the labour market behaviour in the informal sector, particularly in relation to the migrants into the city, and the formal sector labour market
- viii) an analysis of the working and living conditions of the workers in the informal sector
- ix) an examination of the growth strategy relying on informal sector from the viewpoints of long term growth, and equity in the urban labour market.

In dealing with each of the above aspects the study examines a number of hypotheses commonly stated in connection

with the functioning and importance of the informal sector. The most important of these hypotheses relate to the relative advantage of the informal sector in providing higher employment per unit of capital and output, and a more equitable pattern of growth; the capacity of informal sector to grow and play useful role in an urban economy without necessarily depending on the formal sector; and role of informal sector as the absorber of the fresh entrants particularly migrants in the urban labour market, and as a vestibule for them to enter the ~~formal labour market~~ ^{sector}.

I. Empirical Identification : An Estimate of Informal Sector in Ahmedabad City

Despite the conceptual problems of classification posed in the earlier chapter, it is essential for an empirical study like the present, to adopt an operational criterion to identify the informal sector. Using logical deduction and informed judgement, it is possible to identify and describe the informal sector in the geographical unit of our study. We may start with identifying a list of activities where the economic operations are carried out more, or less on the basis that our concept of 'informal' sector implies. It is not very difficult at least to identify, on the basis of common observation, sectors which are likely to have a large part of their activities in the 'informal' sector. For example, agricultural

sector is predominantly 'informal'. Services, particularly, personal services, have a predominance of informal sector. Similarly, 'trade' is found to operate to a large extent on these lines. So is a large part of construction activity. In the manufacturing sector repairing, ancillary activities, tailoring, embroidery and the like are likely to fall mainly in the informal sector.

While one can intuitively judge the relative importance of formal/informal component in each activity, it is necessary for the purpose of a study to set a dividing line between the sectors and on that basis estimate the size of each component in each sector as well as in the entire urban economy. One criterion which is common to 'informal' sector and its other approximate synonyms is the size of production units which is also operationally a convenient criterion. We, therefore, postulated a general proposition that the all production units employing less than 10 workers, including establishments, and independent workers, may be considered to constitute the informal sector. The information available from secondary sources, particularly the Census of India, enables us to approach the problem on the basis of employment rather than production units. Further while the Census enables us to divide the city workforce between regular employees and unattached workers, and also distribution of regular employees by establi-

shment sizes, it does not provide information to determine the structure of employment of unattached workers. The 'unattached' workers consist of (i) persons who are engaged in some activity on an 'independent' basis and (ii) those who are working for establishments and households on a 'casual' basis. While 'independent' workers are clearly in the informal sector, casual workers are to be found in three different categories with varying implications for the objectives of our study : (i) casual workers working for large establishments : their income is already accounted in the income of those establishments in the formal sector; they are employed in the formal sector, but their labour market characteristics are different from those of the regular employees of their employer establishments and more akin to the workers in the informal sector; (ii) casual workers working in small establishments : their income is also accounted for in that of the informal sector establishments, they are employed in the informal sector, and they are part of the informal labour market; (iii) casual workers working for the households : their income is nowhere accounted for, their employment is obviously in the informal sector and their labour market is highly informal. Workers in category (i) are not relevant from the viewpoint of assessing income and employment of the informal sector, but should be covered in a study of informal labour market. Those

in category (ii) are not relevant for a separate income estimation as their income is already accounted for elsewhere, but they are relevant from the employment and labour market viewpoints. Those in category (iii) are relevant for income estimation as well as for a study of employment and labour market conditions.

We have attempted distribution of the workforce in 1971 into these various segments of the urban economy. We already have estimates of workers in formal and informal sector establishments employed on a regular basis from the Census. The distribution of unattached workers into workers casually employed by formal sector establishments, those employed casually by informal sector establishments, those employed casually by households, and 'independent' workers has been determined on the basis of proportions revealed by our sample survey. The structure thus revealed, by divisions of activity, is presented in Table II : 1. As can be seen from the Table, 66 per cent of the workers are regularly employed; 45 per cent with formal sector establishments and 21 per cent with informal sector establishments. Of the 34 per cent 'unattached' workers 12.50 per cent work for establishments, 8 per cent for formal and 4.50 per cent for informal sector ones, on a casual basis; 7 per cent work for households on a casual basis, and 14 per cent work independently. Workers in the informal labour market would constitute 55 per cent -

unattached (34%) plus regular employees of small establishments (21%) - of the total workforce. Informal sector employment, however, constitutes around 47 per cent, that is total workers in the informal labour market (55%) minus those of them who work for formal sector establishments (i.e. 8%).

As expected, the degree of informal sector as well as the structure of employment in the informal sector differs significantly among divisions of activity. Informal sector employment constitutes over three fourths of the workers in agriculture and allied activities, 73 per cent in transport and communication and 67 per cent in trade and commerce. It is around one half of total employment in construction and other services, but only a little over one fourth in manufacturing. But the entire labour force of the agriculture and allied and construction activities is employed on an informal basis, as even large establishments, if any, operating in these activities engage workers only on a casual basis. Similarly, in other services the informally employed constitute almost two-thirds of the total workers in that sector, although employment in informal sector enterprises constituted only one half of the total employment. This implies that a number of formal sector establishment in this sector, employ a significant portion of their workers on a casual basis. Of the total employment of 54.30 thousand in the formal establishments in this sector, 20.30 thousands consist of casual

**Employment Structure by Size of Establishments and
Division of Activity, Ahmedabad 1971**

Division of Activity	(Workers in '000)										
	Workers employed in establishments with employment size of 10 or more workers						Workers employed in establishments with employment size of less than 10 workers		Total informal sector workers	Workers in in- formal employ- ment	Total workers
	Regular	Casual	Total	Regular	Casual	Total	Indepe- ndent workers	Casual workers working for hou- seholds			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(7+8+9) (10)	(3+10) (11)	(4+10) (12)
0 & 1. Agriculture and Allied	Negligible	4.50	4.50	Negligible	2.70	2.70	8.80	4.00	15.50 (77.50)	20.00 (100.00)	20.00 (4.00)
2, 3 & 4. Manufacturing gas and electricity	155.00	5.50	160.50	39.50	7.50	47.00	12.50	Negligible	59.50 (27.50)	65.00 (29.50)	220.00 (44.00)
5. Construction	Negligible	8.00	8.00	Negligible	7.50	7.50	0.25	0.25	8.00 (50.00)	16.00 (100.00)	16.00 (3.40)
6 & 8. Trade and Commerce and Banking and Insurance	30.00	0.70	30.70	43.00	0.60	43.60	23.70	Negligible	67.30 (67.00)	68.00 (68.40)	98.00 (19.60)
7. Transport, storage & Communication	8.00	1.00	9.00	11.00	Negligible	11.00	6.00	11.00	28.00 (73.00)	29.00 (75.50)	37.00 (7.40)
9. Other Services	34.00	20.30	54.30	10.00	4.20	14.20	18.75	19.75	52.70 (49.50)	73.00 (65.00)	107.00 (21.60)
TOTAL	227.00	40.00	267.00	103.50	22.50	126.00	70.00	35.00	231.00 (46.50)	271.00 (54.50)	498.00 (100.00)

Figures in parentheses in columns 10 and 11 are percentages to column 12, and those in column 12 are percentages to the column total.

workers. In other sectors the two measures of informal sector, namely the employment, informal sector enterprises, and workers informally employed irrespective of where they work, are not found to differ substantially.

Due to the varying extent of informal sector employment among different activities, the total informal sector employment is distributed among various divisions somewhat differently from the total employment in the city. Manufacturing, the largest division of activity, claimed 44 per cent of the city workers, but only 23 per cent of the informal sector employment; Other Services, the second most important sector claimed 22 per cent of the total and 25 per cent of the informal sector employment; Trade and Commerce 20 per cent of the former and 29 per cent of the latter and Transport and Communication 7 per cent of the former and 12 per cent of the latter. Thus within the informal sector trade and commerce emerges as the largest sector followed by other services, manufacturing, transport, agriculture and allied and construction in that order.

II. Sampling : The Sample Size and Proportions

The study required four sub-samples for its purposes :

- (i) small establishments; (ii) regular workers of small establishments; (iii) independent workers; and (iv) casual workers in

the informal sector. For (i) the 1971 Census reported 41,000 establishments employing less than 10 workers each distributed among Agriculture and allied; Manufacturing; Construction; Trade, Commerce, Banking and Insurance; Transport storage and Communication; and, Services divisions in the proportions of 0.5, 33.2, 1.2, 50.5, 4.0 and 10.6 per cent respectively. Of these the three divisions contributing the smallest proportions were left out and a sample of 399 establishments distributed among Manufacturing, Trade and Commerce and Services on a proportionate basis was selected. A total of 1534 workers were found working in these selected units, of them a sample of 487 workers was selected for (ii) above. For the selection of (iii) and (iv) we had no prior information to identify them separately from among the 'unattached' workers. Therefore, an overall sample had to be taken from the universe of unattached workers not regularly working in establishments. The 'unattached' workers were estimated to be around 169 thousands in 1971. A sample of 850 workers constituting one-half per cent of the total workers in this category distributed among divisions on the basis of 1971 proportions was selected (See Table II : 2). Of these workers 376 turned out to be 'independent' workers and 474 'casual workers'; of the latter 178 were found working for the households, and 296 for establishments.

The Sample and Its Employment Coverage
(Division and Category-wise)

Divisions	Establishment Sample			Unattached Workers Sample			Total workers covered (cols. 4+5+8)
	No. selected	Total workers in selected estts.	Sample for de-tailed invest-igation workers	Inde-pend-ent workers for estts.	Casual workers working for house-holds	Casual workers working for house-holds	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) (9)
Agriculture and allied activities	0	0	0	38	31	18	49 (3.62)
Manufacturing	70	268	122	77	85	0	85 (17.88)
Construction	0	0	0	3	67	3	70 (3.04)
Trade & Commerce	260	689	272	138	8	0	8 (25.20)
Transport and Communication	0	0	0	33	6	63	69 (3.10)
Services	79	577	93	57	99	94	193 (26.78)
Total	399	1534	457	376	296	178	474 (100.00)

(Figures in brackets in the last column are percentages of total workers covered in the sample).

The total coverage of the study is thus around 1.1 per cent of the estimated informal sector employment in the city in 1971. The division-wise distribution of the sample turns out to be in the same relative order as the universe of the informal sector, though the proportions of the two are found to be slightly at variance with each other primarily because of our inability to control them in the absence of a complete sample frame for the selection of unattached workers.

III. Sample Procedure

For the selection of establishments the list available with Chief Inspector, Shops and Commercial Establishments was used. A total of 41,291 establishments were reported to exist employing 1, 03,500 workers in 1971 Census. The registrations under the Shops and Commercial Establishments Act, however, revealed a total of 96,507 establishments in 1976 : 75 per cent of them being shops, 13 per cent commercial establishments, 10 per cent manufacturing establishments, one per cent eating houses, 0.11 per cent hotels and 0.04 per cent theatres. Our sample of 399 establishments consisted of 228 shops, 70 manufacturing establishments, 67 commercial establishments, 17 eating houses, 10 hotels and 7 theatres. The sample proportions were purposively made somewhat different from the population proportions with a view to ensuring a minimum number of establishments in each category, particularly in eating houses, hotels and theatres.

As pointed out earlier, the 399 selected establishments had in all 1,534 workers. For selecting a sample of workers for detailed investigation on labour market and family living, one-third of these units were first selected choosing all units with a serial number divisible by 3; and all the workers in the selected 133 units were then interviewed. They numbered, as indicated earlier, 487.

For the sampling of the unattached workers we had no sample frame. First, ward and activity division-wise number of workers to be selected was determined in proportion to the ward and activity-wise distribution of total employment in the city. The wards giving an insignificant number of workers in an activity were eliminated from the universe; only such wards which gave a sample of at least five unattached workers in an activity division on the above basis, were selected for that division of activity. Once the number of workers to be interviewed in each activity division in each ward was determined on the above basis, the actual identification of respondents was left to the investigators who were given detailed guidelines to avoid any biases that may creep into the sample.

Four sets of questionnaires were used for investigation, one each for establishments, regular workers in establishments, independent workers and casual workers. The survey was conducted during January-June 1977. The information sought

from the respondents related mainly to two aspects of the informal sector : activities, their earning and employment position and potential, on the one hand; and, labour market, workers' working and living conditions, on the other. The analysis and findings of the survey are reported in the following chapters which also attempt to examine some of the prevalent hypotheses concerning the urban informal sector and labour markets in a developing economy.

CHAPTER III

Structure of Informal Sector Activity

(1) : Establishments

Even though the informal component is generally found to be sizeable in most of the urban areas in developing economies, its relative size differs among towns and cities in accordance with the structure of activities and organisations. Urban areas dominated by such manufacturing activity which is carried out mainly on a large scale basis, or an administrative town with organised government service as the predominant activity are likely to have a relatively smaller informal sector. On the other hand, urban settlements with trading and craft-based manufacturing activities are likely to have a relatively large informal sector.

I. Structure of Economic Activity in Ahmedabad City

Ahmedabad, though predominantly an industrial centre with large scale cotton textiles providing the economic base of the city, has also been a major trading centre; and of late, it has also acquired a large segment of many such industries which permit operations on small scale informal basis as well. With the rapid increase in population, the unorganised service sector has expanded at a fast rate. Consequently,

employment in the informal sector has been increasing in relative importance in Ahmedabad over the period. The estimates given in the preceding Chapter for the year 1971 put the informal sector employment at around 46.5 per cent; on similar basis and assumptions the 1961 estimates came to around 40 per cent. Such a change in relative proportions has taken place on account of a change in the structure of activities in the city during the decade. Activities which tend to employ a major proportion of workers on an informal and unorganised basis, such as agriculture related activities, construction, trade and commerce, and transport have increased faster than manufacturing, particularly non-household, which was primarily responsible to lend a highly organised and formal character to the economic activities in the city. Even though the household industry has also declined in importance, contributing 1.52 per cent of the total employment in 1971 as against 3.05 per cent in 1961, the fall in the share of non-household sector from 47.53 per cent to 42.50 per cent had a much greater impact on account of its predominant contribution. Further, the major part of this decline has been contributed by the most organised industry, cotton textiles, which contributed almost four-fifths of the industrial employment in the city in 1961 and only around two-thirds in 1971. Trade and commerce contributed 19.6 per cent in 1971 as against 15.45 in 1961 and

agriculture-based activities, livestock etc., increased their contribution from 0.61 per cent in 1961 to 4.00 per cent in 1971. Services remained constant at around 22 per cent, but the public service component declined from 15 to 10 per cent* and personal services increased from 7 to 12 per cent.

In 1971, of the 46.50 per cent of the total workers engaged in the informal sector about 45 per cent ^{were} regular workers in small establishments, 30 per cent are 'independent' workers and 15 per cent such casual workers who work for households. In this Chapter we will describe the characteristics of the informal sector establishments. The next Chapter portrays the production-related characteristics of the unattached workers; and the following Chapter attempts an assessment of the income and employment potential of the entire informal sector.

II. The Entrepreneurs

Most of the establishments have either proprietary or partnership form of ownership; 45 per cent are proprietary and 52 per cent partnership concerns. Among theatres, however, most firms are private limited companies. With the exception of a few shops which are run on the basis of a public limited

* This is accounted for to a large extent by the transfer of State Capital from Ahmedabad to Gandhinagar.

corporation or a cooperative, virtually all the establishments have a family based organisation, ownership and management. It is, easy to identify the entrepreneurs and describe the pattern of their personal and socio-economic characteristics, than in a situation of diffused ownership and control of organisations. The person who is running the enterprise is also the proprietor and owner.

Because of the nature of activities that an informal sector entrepreneur performs, and the experience and capacity that is requires, ~~that~~ too young and too old may not fit in the role. It seem evident from the fact that around three-fourths of the entrepreneurs were in the age group 35-50. Only 5 per cent were below 25 years of age; and around 10 per cent were in the age groups 25-35 years and 50 years and above. ^{each} In the manufacturing establishments, however, half of the entrepreneurs were below 35 years. In theatres, all were beyond 35 years of age while in all other divisions those beyond 35 years formed the majority. On an average an informal sector entrepreneur was found to be of 39 years of age.

All but 2.5 per cent of entrepreneurs could read and write. Over two-fifths ~~have~~ had the benefit of college education, and another one-third completed secondary education. Commercial establishments and theatres have the most educated

entrepreneurs : 72 per cent of them in the former ^{and} 6 out of 7 ^{very} among the latter have gone to college. Shops and Eating houses have relatively larger percentage of illiterates and those with only a few years of schooling.

Most of the entrepreneurs are of local origin, or if migrants, have been in the city, for substantially long period : 57 per cent of the entrepreneurs were born and brought up in Ahmedabad city and of the migrants two-thirds have been in the city for longer than 15 years. The migrants constituted 45 per cent among shop entrepreneurs, 48 per cent among those in commercial establishments, 31 per cent in manufacturing establishments, 40 per cent in hotels and 14 per cent in theatres. Only in eating houses they constituted the majority (59%) of entrepreneurs. Most of the migrants have a rural origin; but such migrants which have started manufacturing establishments and hotels are mostly of the urban origin.

The trading families seem to be the major suppliers of entrepreneurs in the informal sector. Almost two-thirds of the entrepreneurs in our sample belonged to such families. Farming (19%) and non-farm wage labour (14%) were the other occupations followed by the families of a significant proportion of entrepreneurs. A small percentage (3) of entrepreneurs came from families which had some traditional craft as their main vocation.

While trading background was dominant among entrepreneurs in all other divisions, in eating houses majority of the entrepreneurs came from farming background.

The respondents were, however, not necessarily engaged in what they claimed as their family occupation, before embarking upon the present venture. Nor were they necessarily engaged in activities in the same line as of their present business. We found that 37 per cent of them did not engage themselves in any productive activity before taking up the present activity nor did they consider themselves unemployed, as they were probably students or too young to start work. A sizeable proportion (31%) of them were employed on wages and salaries in establishments, mostly dealing with products and services different from their present lines of business. Twenty seven per cent were self-employed, seven per cent in the same line in which their present activity falls. Only two percentage were self-employed in cultivation. Thus it looks that previous experience in the same line of business either as self-employed or paid employee has played only a minor role in making them entrepreneurs in certain lines of activities in the informal sector. The respondents who were engaged in some activity earlier, however, took long time, on an average 14 years before they left that activity and stepped in as entrepreneurs in their present establishments.

Since many of the entrepreneurs had no previous experience and even those who had such experience, it was not in the same line of work as their present business, one suspects that probably most of them inherited the business from their fathers and families. That, however, is not the case in general : thirty per cent of the entrepreneurs did inherit their present business from their fathers, but rest of them worked their way up themselves. The inheritance was found to be the predominant mode of acquiring entrepreneurship in commercial establishments where only 43 per cent of the entrepreneurs were self made; ^{and} in hotels, ^{where} the proportion of inheritance cases was one-half. In rest of the establishments over two-thirds of the respondents had climbed the ladder of entrepreneurship with their own efforts.

III. Age Structure of Establishments

The rapid growth of informal sector establishments during the recent past is evident from the fact that a large number of them have been started only recently : around 35 per cent of them were started during the last five years ^{only} and 16 per cent establishments were at least 20 years old (Table III - 1). The average age of the establishments works out to be around 12 years : it is lowest at 7 years for eating houses and highest at 13 years for manufacturing establishments. The high average

Table III - 1

Age Distribution of Establishments
(In years)

Divisions	0 - 5	6 - 10	11 - 20	21 - 50	50 +	Total Units	Average Age
1. Shops	84 (36.84)	46 (20.18)	61 (26.75)	33 (14.47)	4 (1.75)	228 (100.00)	12.08
2. Commercial Establishments	15 (22.39)	18 (26.86)	27 (40.30)	7 (10.45)	-	67 (100.00)	11.79
3. Manufacturing Establishments	27 (38.56)	16 (22.86)	10 (14.29)	16 (22.86)	1 (1.43)	70 (100.00)	12.97
4. Eating Houses	10 (58.83)	2 (11.76)	5 (29.41)	-	-	17 (100.00)	6.94
5. Residential Hotels	2 (20.00)	2 (20.00)	5 (50.00)	1 (10.00)	-	10 (100.00)	12.1
6. Theatres	3 (42.86)	1 (14.28)	1 (14.28)	2 (28.57)	-	7 (100.00)	11.28
TOTAL	141 (35.34)	85 (21.30)	109 (27.32)	59 (14.79)	5 (1.25)	399 (100.00)	11.95

(Figures in brackets are % to row totals)

for manufacturing establishments, however, does not mean that most of these establishments are old; as a matter of fact, 40 per cent of the units are less than five years old and 63 per cent less than 10 years old; but 25 per cent units which are older than 20 years have pulled the average up. Thus in practically all divisions, the informal sector establishments have registered fast growth in numbers during the last one decade.

IV. Structure of Activities

The informal sector establishments carry on highly variegated nature of activities. Even though the sample itself determined the nature of activities to the extent the sample was stratified between various types of establishments : shops and commercial establishments, manufacturing establishments, eating houses, hotels and theatres, a further analysis of the sampled establishments is useful to provide some additional insights in two ways : One, the establishments selected on the basis of types could be classified according to the divisions of activity wherein one finds that at least one group of establishments, namely commercial establishments are not exclusively in one category or the other of the activities. It is seen that of the 67 selected establishments in this category, 32 were engaged in the various kinds of trade

and commerce and 35 were dealing in various kinds of services. The activity-wise distribution of the selected establishments turned out to be as given in Table III - 2. The table also gives a more detailed classification of activities in each division in order to have a more precise idea of the structure of activities in the informal sector establishments. It is

Table III - 2

Activity-wise Distribution of Sampled Establishments

Activity	No. of estts.	Activity	No. of estts.
I. Trade	260	II. Manufacturing	70
a) Wholesale trade in	<u>139</u>	food products	4
manufactured goods	129	cotton textiles	21
fruits and vegetables	1	metal products	5
timber	2	general machinery	16
provisions	2	printing & publishing	7
gas, kerosene etc.	1	transport equipment	4
general goods	1	others	13
b) Retail trade in	<u>121</u>	III. Services	42
manufactured goods	86	money lending	5
provisions	18	auditing and accounts	1
gas, kerosene etc.	2	commission agents	14
general goods	15	travel agents	5
		goods transport	9
		contractors	1
		theatres	7
		IV. Hotels and Restaurants	27
		residential hotels	10
		eating houses	17
		TOTAL	399

seen that trade and commerce, the largest sector in the informal sector is heavily dominated by the wholesale or retail trade in manufactured goods : over 80 per cent of establishments in trade and commerce deal in this category of goods. In the manufacturing sector cotton textiles and machinery items account for over 50 per cent of establishments. Among service establishments commission agents, transport agents, theatres, money lenders and travel agents account, in that order, for almost the entire sample.

Looking further into the categories ^{of} manufactured goods traded by informal sector establishments, one finds that one-third of them trade in textiles, 7 per cent in chemicals, 6 per cent in general machinery items, 5 per cent in basic metals and metal products each, 4.5 per cent in food products and petroleum and coal products each, and 4 per cent in electrical machinery and transport equipment items each. The product pattern of informal sector trading establishments dealing in manufactured items mainly reflects the structure of manufacturing sector in the city.

V. Structure of Employment

The informal sector establishments are obviously small sized units. On an average an establishment in our sample employs 3.84 persons including the self-employed and owner-workers (Table III - 3). The average size of establishments in

Table III - 3

Size Structure of Employment in Informal Establishments

Division	Establishment Employing						No. of units	Total workers	Average size (no. of workers)
	1 wor- ker	2-3 wor- kers	4-5 wor- kers	6-10 wor- kers	11-20 work- ers	21-50 work- ers			
Manufacturing	26	17	10	13	4	-	70	268	3.82
Food products	2	1	1	-	-	-	4	8	2.00
Cotton textiles	10	4	2	3	2	-	21	81	3.86
Metal products	2	1	1	1	-	-	5	15	3.00
Machinery	5	3	2	5	1	-	16	66	4.13
Printing & publishing	1	3	2	1	1	-	7	44	6.23
Transport equipment	1	2	-	1	-	-	4	14	3.50
Others	5	4	2	2	-	-	13	40	3.08
Trade and Commerce	115	85	39	15	6	-	260	684	2.63
Wholesale trade	47	49	27	11	5	-	139	423	3.04
Retail trade	68	36	12	4	1	-	121	261	2.15
Services	6	9	10	11	-	6	42	411	9.78
Hotels & Restaurants	1	9	9	6	1	1	27	171	6.33
ALL	148	120	68	45	11	7	399	1534	3.84

the manufacturing sector is the same as overall average; but units in trade and commerce sector are smaller at an average size of 2.63 workers. Service establishments and hotels and restaurants are relatively larger sized with an average of 9.78 and 6.33 workers respectively. Over one-third (37%) of the units are single-worker establishments; in retail trade such establishments make over one-half of the total, in wholesale trade one-third and in manufacturing 37 per cent. There are very few single worker establishments in services and hotels and restaurants. Almost half the establishments employ more than one but not more than five workers, their proportion is low among manufacturing establishments and quite high among hotels and restaurants. Only 4.5 per cent establishments have more than 10 workers each, such establishments are mostly to be found in manufacturing,* commercial establishments and services.

Apparently, the hypothesis that the informal sector workers are highly underemployed does not seem to hold in case of the establishment workers : around 70 per cent of ~~the~~ them are employed regularly on a full-time basis.

* These establishments got covered in the sample despite the upper limit of 10 workers fixed for the universe, and in the official records they showed less than 10 workers, though on the day of interview, they employed more workers. *showed*

Another proposition that a significant part of informal sector labour force consists of family members is found to hold to some extent : 23 per cent of the informal sector establishment workers belong to the category of unpaid family labour. Unpaid family workers constituted between one-fourth and one-third in all divisions of activity except in service establishments where their percentage was very low. Casual workers featured prominently in hotels and restaurants, and services. About 94 per cent workers were employed on a full time basis; part time workers formed somewhat significant proportion in hotels and restaurants, manufacturing and trade and commerce.

The hypothesis that women workers constitute a sizable proportion of the informal sector labour force does not seem to hold as only 4.5 per cent of the workers in informal establishments were women; they constituted a significant proportion in manufacturing, particularly in textiles, and in trade and commerce. Their proportion was relatively higher among casual workers and unpaid family workers and lower among regular employees.

VI. Capital and Turnover Structure

On capital size and structure we could get usable information from the manufacturing establishments only. We could, however, get information on the assets possessed by non-manufacturing establishments in 329 cases. One out of ^{seven} establishments did not possess any assets. Of those who had some assets, most had only machinery and equipment and only a few had building. All the establishments together possessed assets worth Rs.2.60 crores. The value of assets was less than Rs.10,000 in around two thirds of cases and it was between Rs.10,000 to Rs.50,000 in another one-fourth of cases and above Rs.1 lakh in 7 per cent cases. Most of the theatres owned assets worth above Rs.5 lakhs, while most of the shops and eating houses had assets worth less than Rs.10,000.

On manufacturing establishments we have more detailed information on total productive capital and fixed capital, by size and industry group. The 70 manufacturing establishments have a total productive capital of Rs.1.79 crores. Most of the units have a relatively small capital size, as many as 56 per cent establishments have a capital investment of less than Rs.50,000 and 91 per cent of less than Rs.5 lakhs. Over two-thirds of the units have a capital size of less than Rs.50,000

in textiles, food products, and transport equipment, but majority of units have a capital of over Rs.50,000 in machinery, printing and publishing, and metal products. Only 22 per cent of the total productive capital is, however, found to be in the form of fixed capital. The ratio of fixed to total capital is 37 per cent in textiles, 20 per cent in general machinery; 43 per cent in printing and publishing; 40 per cent in food products; 82 per cent in transport equipment, 10 per cent in metal products; 54 per cent in other manufacturing groups.

The size of establishments by turnover naturally varies significantly among the various divisions. The service establishments on an average have the largest turnover of over Rs.38 lakhs per annum followed by sholesale trade at around Rs.12.50 lakhs. The lowest turnover size per unit was found in hotels and restaurants at Rs.66,000 per annum, followed by manufacturing establishments at Rs.3.26 lakhs and retail trade establishments at Rs.4.31 lakhs. A total of Rs.51 crores of turnover was generated by the 399 sampled units during 1976. Two-fifths of the units had an annual turnover of less than Rs.1 lakh, while 36 per cent did business worth over Rs.5 lakhs each. Some very large units, particularly in services and wholesale trade has a very large turnover due to which the average turnover per unit for the entire sample turned out to be Rs.12.76 lakhs.

Table III - 4

Distribution of Establishments by Turnover Size

Division	Less than 5	5-10	10-20	20-50	50-100	100-500	500-2500	2500-5000	5000 plus	Units Total turnover	Average turnover per unit
Manufacturing	4 (5.71)	12 (17.14)	10 (14.29)	9 (12.86)	12 (17.14)	15 (21.43)	6 (8.57)	1 (1.43)	1 (1.43)	70 (100)	22832 326.17
Trade & Commerce	2 (0.77)	7 (2.69)	13 (5.00)	36 (13.85)	28 (10.77)	72 (27.69)	75 (28.65)	13 (5.00)	14 (5.38)	260 (100)	323277 1243.37
Wholesale	-	-	4 (2.88)	9 (6.47)	14 (10.07)	33 (23.74)	56 (40.29)	11 (7.91)	12 (8.63)	139 (100)	271120 1950.50
Retail	2 (1.65)	7 (5.79)	9 (7.44)	27 (22.31)	14 (11.57)	39 (32.33)	19 (15.70)	2 (1.65)	2 (1.65)	121 (100)	52157 431.05
Services	-	-	-	1 (2.38)	3 (7.14)	8 (19.05)	16 (38.10)	8 (19.05)	6 (14.29)	42 (100)	161329 3841.17
Hotels & Restaurants	-	-	7 (25.93)	11 (40.74)	6 (22.22)	2 (7.40)	1 (3.70)	-	-	27 (100)	1779 65.89
TOTAL	6 (1.50)	19 (4.76)	30 (7.52)	57 (14.29)	49 (12.38)	97 (24.31)	98 (24.56)	22 (5.51)	21 (5.26)	399 (100)	509217 1276.23

(Figures in brackets are percentages to row totals)

VII. Turnover Employment Ratios

On an average a turnover of Rs. 1 lakh is found to generate employment for 1.51 workers in manufacturing, 0.18 worker in trade and commerce, (0.14 in wholesale and 0.47 in retail), 0.25 worker in services, and 9.6 in hotels and restaurants. Over the five year period (1972-77) the establishments in the informal sector have grown quite fast in terms of turnover, but their growth in terms of employment has been rather slow. Still the employment growth ^{was} is around two-thirds of the growth of turnover in manufacturing establishments, while in other sectors one per cent growth in turnover is accompanied by only around 0.15 per cent growth rate of employment (Table III - 5). Thus one per cent increase in employment has required around 1.66 per cent increase in turnover in manufacturing, 5.09 per cent in trade and commerce (3.84 per cent in wholesale and 12.42 per cent in retail trade), 9.38 per cent in services and 6.29 per cent in hotels and restaurants.

Within the manufacturing sector a turnover of Rs.1 lakh generates, on an average, employment for 4.4 workers in food products, 2 workers in textiles, 0.03 workers in metal products, 1.3 workers in machinery, 3 workers in printing and publishing, 19 workers in transport equipment and 1.3 workers in others. Over the period 1972-77, the requirements of turnover size to generate one man-year of employment have substantially increased.

Table III - 5

Growth Rates of Some Selected Variables in
Manufacturing Establishments (1972-77)

Industry Group	Compound Rates of Growth (% p.a.) in			
	Total pro- ductive capital	Fixed capital	Turn- over	Employ- ment
Food products	6.76	7.80	2.81	6.96
Cotton textiles	15.26	21.60	28.60	18.35
Metal products	5.28	38.00	32.63	5.00
General machinery	13.33	9.15	12.84	4.24
Printing and publishing	33.82	35.90	38.82	10.90
Transport equipment	17.14	15.60	22.90	13.18
Others	12.14	9.60	11.74	6.72
All	21.50	12.33	15.54	9.36

In food products one per cent increase in employment has required 0.40 per cent increase in turnover, while in general machinery, and printing and publishing, a 3.04 per cent and 3.56 per cent increase in turnover has been required to lead to one per cent increase in employment. In textiles, transport equipment and other industry a rate of growth of 1.5 to 2 per cent in turnover could generate a one per cent increase in employment.

VIII. Productivity and Capital Intensity

The total turnover of around Rs.50 establishments yielded Rs.2.51 crores of estimates of turnover and value added per worker by broad activity divisions are given in Table III - 6.

Table III - 6

Turnover and Value Added Per Workers :
Division-wise

Division	Turnover per worker Rs.	Value added per worker Rs.
Manufacturing	85194	29728
Trade and Commerce	469197	11000
Services	397362	22570
Hotels and Restaurants	10404	5223
Average	331952	16376

Within the manufacturing sector, value added per worker ranges between Rs.209106 in metal products to Rs.3986 in transport equipment; machinery and miscellaneous products have a figure of around Rs.27000 each; textiles, and printing and publishing around Rs.13500 each; and food & products, one of the lowest at Rs.7600.

The advantage of a rather low capital requirements per worker is found to exist only in case of units using ^{with relatively} ~~a total~~ ^{small capital size} capital of less than Rs.500,000. Capital labour rates in such small units is less than Rs.10,000; but beyond that size of capital, the increase in employment requires much larger increase in capital (Table III - 8). In textiles, however, a unit upto a capital size of Rs.1 lakh is found to yield a favourable employment-capital ratio, in machinery such situation obtains upto a total productive capital of Rs.50,000, in food products upto Rs.20,000 in transport equipment even beyond a capital size of Rs.50,000 but in metal products, and 'other industries' groups the employment advantage is lost, the moment the unit's capital size exceeds Rs.20,000. Overall, for a unit with a total capital investment of Rs.1 lakh and above, the marginal gain in employment is almost zero in most of the cases.

In terms of fixed capital, a low capital intensity, say upto Rs.5,000 per worker is found, only in unit employing less than Rs.20,000 of fixed capital. In textiles, machinery and metal products, the fixed capital-labour ratio exceeds Rs.5,000 once the total capital size of the unit exceeds Rs.10,000; in food products, the advantage is lost with a capital size of Rs.20,000; in transport equipment and other

Table III - 8

Capital Labour Ratios in Informal Manufacturing Establishments

(Rs. '000)

a) Total productive capital (size groups Rs. '000)	Food products	Cotton textiles	Metal products	Machinery	Printing and publishing	Transport equipment	Others	ALL
Less than 5	4.50	2.77	4.1	1.75	-	-	-	2.87
5 - 10	-	3.62	-	4.08	-	8.36	7.40	4.59
10 - 20	9.60	7.67	-	-	-	6.84	9.06	8.12
20 - 50	40.40	4.13	20.23	5.22	10.87	5.57	18.00	8.61
50 - 100	-	8.83	-	17.05	36.05	-	15.55	14.49
100 - 500	36.35	32.28	-	31.70	17.68	-	28.60	30.41
500 - 2500	-	300.00	50.58	219.67	47.25	-	-	129.24
2500 - 5000	-	-	-	-	-	-	-	-
5000 +	-	-	1250.00	-	-	-	-	1250.00
ALL	26.19	38.26	521.18	66.75	31.86	6.22	22.02	66.80
b) Fixed Capital (size group Rs. '000)								
Less than 5	2.50	0.71	3.00	1.28	-	-	2.00	0.86
5 - 10	5.00	1.17	5.00	1.67	-	4.00	4.80	2.47
10 - 20	14.60	10.00	12.00	-	-	7.50	2.80	4.08
20 - 50	-	2.91	-	13.75	14.60	5.00	6.47	6.79
50 - 100	-	25.00	-	9.52	11.82	-	-	12.24
100 - 500	-	128.57	46.00	31.33	16.63	-	50.00	26.35
500 - 2500	-	-	83.33	-	-	-	-	107.69
ALL	10.68	13.77	53.57	13.27	13.68	5.07	11.96	14.85

industries it continues upto the capital size of Rs.50,000. Thus, the manufacturing units in the informal sector have advantage in terms of relatively low capital requirements only in units which have a total capital size of upto Rs.50,000 and fixed capital investment of upto Rs.20,000; the advantage, however, is more distinct in case of units with a total productive capital of upto Rs.20,000 and fixed capital investment of upto Rs.10,000.

There, however, seems to be a significant advantage of relatively large capital size, in terms of labour productivity. Value added per worker averages only to Rs.4879 and Rs.5473 for units employing less than Rs.5000, and Rs.5000 to Rs.10,000 of total productive capital respectively (Table III - 9). But the figure is as high as Rs.48709 for units with total capital size of Rs.1 lakh and above. Similar tendency is observed in relation to fixed capital size as well.

In textiles an increase in total capital size, but not in fixed capital size is accompanied by a significant increase in labour productivity. Transport equipment has the lowest figure of value added per worker, which does not seem to vary with any consistency with the total or fixed capital size. In printing and publishing units also labour productivity does not seem to vary significantly with capital size. In metal products and machinery units, however, value added per worker increases very significantly with increase in size both of total as well as fixed capital.

Table III - 9

Value Added Per Worker

a) Size Class by Total Productive Capital (Rs. '000)	Food products	Textiles	Metal products	Machinery	Printing and publishing	Transport equipment	Others	Average
Less than 5	3600	4926	5900	4990	-	-	-	4879
5 - 10	-	2983	-	6106	-	4800	11700	5473
10 - 20	9100	7766	-	-	-	6760	10000	7570
20 - 50	12600	7333	24767	8300	7483	2150	26867	9353
50 - 100	-	6070	-	11400	26575	-	6657	9560
100 +	6600	30125	277854	37278	12800	-	39791	48709
b) Size Class by Fixed Capital (Rs. '000)								
Less than 5	3600	4860	5900	6155	1055	-	12700	5150
5 - 10	-	7616	24550	7480	-	4900	14550	9399
10 - 20	9100	6300	25200	-	-	9500	15420	14504
20 - 50	7800	6087	-	13175	13840	2150	18971	8671
50 - 100	-	-	-	13708	13029	-	-	13594
100 +	-	-	277854	78000	13679	-	84429	85252
Average	7600	13976	209106	27540	13327	3986	26524	29728

Capital intensity of output measured in terms of output capital ratio works out to be 1.28 in terms of total productive capital and 5.79 in terms of fixed capital for the entire sample of manufacturing units. For the different industry groups the estimates are given in Table III - 10. It is found that over the period 1972-77 capital requirement per unit of output have shown significant increase. The incremental

Table III - 10

Average and Incremental Output Capital Ratios
in Manufacturing Establishments

Industry Division	$\frac{O}{TPC}$	$\frac{\Delta O}{\Delta TPC}$	$\frac{O}{FC}$	$\frac{\Delta O}{\Delta FC}$
Food products	0.71	0.29	1.35	0.63
Textiles	0.85	1.06	3.80	4.58
Metal products	1.06	43.87	5.93	170.21
General machinery	1.36	0.78	5.75	6.22
Printing and publishing	1.02	1.07	1.31	2.43
Transport equipment	0.78	0.80	1.06	1.17
Others	2.32	1.91	9.68	5.99
TOTAL	1.28	0.49	5.79	4.22

output to total capital ratio is 0.49 as against the average at 1.28; and incremental output/fixed capital ratio is 4.22 as against the average at 1.28; thus ~~may~~ implying that a unit of the additional capital has yielded only 40 per cent of the output of an average unit of capital. Output to capital -

both fixed and total - ratio has, however, increased in textiles and printing and publishing; and declined in food products, metal products (very significantly) and transport equipment (marginally). Output to total capital ratio has declined, but output to fixed capital ratio has slightly increased in machinery.

Thus, the manufacturing establishments in the informal sector show reasonably high labour productivity and low amount of fixed capital per worker, ^{But} during the recent years, these advantages seem to be declining. Total capital requirements per worker which are already high at around Rs.67000 have been increasing fast and production per worker seems to have slightly declined from Rs.85000 to Rs.80000 per annum. Capital productivity has also declined significantly except in industry groups textiles and printing and publishing.

IX. Raw Materials, Finance and Marketing

On certain aspects of their functioning, such as procurement of materials, availability of finance and marketing, the manufacturing establishments were asked a few questions. The responses generally give an impression they carry on their activities without much difficulty. They buy their raw material locally, manage their finances internally, sell their products mostly locally to different types of buyers depending on the nature of their products. The urge to expand is not found universal, though many of those who are not planning to

expand give financial and market constraints as the reasons for their decision. Some details on these aspects are given in the following paragraphs.

Most of the establishments (90%) buy their raw materials locally; around 40 per cent of them from wholesalers, 50 per cent from retailers, 8 per cent from manufacturers themselves and two per cent from official agencies. Some units complained of the difficulties in procurement of raw materials, mainly on account of shortages; a small number also complained of high prices. Regarding terms of payment it was found that although a cash payment is the major mode of purchase, in about one-third cases, the units could also procure material on credit. Wholesalers and manufacturers were found more willing to give material on credit than the retailers; 45 per cent and 50 per cent of the purchases from the former two respectively were made by establishments on credit; while only 15 per cent of the purchase transactions from retailers were on credit. No establishment got supply of material on credit from governmental agencies.

Most of the informal sector manufacturing units seem to manage their finances internally both for working and fixed capital : 63 out of 70 units did not borrow at all for their capital requirements. Of the seven units who resorted to external finance, three borrowed for working capital and one

for fixed capital only, while three borrowed for both. Five of them were relatively large-sized units having a turnover over Rs.1 lakhs per year. Of the six who borrowed for working capital three depended on borrowing to the extent of less than 30 per cent of their requirements and only one establishment met above 75 per cent of its working capital requirements by borrowing. Of those four who borrowed for their fixed capital finance, the extent of borrowing was in all cases less than 20 per cent of the value of fixed assets with them. In all seven cases the creditor was a commercial bank.

A sizeable number (44%) of establishments produced intermediate products and sold them to other units who used it in their manufacture. Forty per cent of such sales were to large units and 60 per cent to small units. Of those which produced final consumer goods one-third sold directly to the consumers, one-fourth to retailers, and rest to wholesalers and the government. Most of the smaller units with turnover upto Rs.50,000 per year sold direct to the consumer, whereas most of the larger units sold to other units, wholesalers or retailers. Three-fourths of those selling to the government were also relatively large sized. Practically, all the units sold their product locally, though 25 per cent also sold part of their product outside the city but within the State; seven per cent found market for part of their product in Bombay, and 10 per

cent in other States. No informal sector unit exported its products. It is seen that most of the smaller units sold their products locally, but of the large units an increasing percentage catered to outside market as well. Thus, all the units with a turnover of less than Rs.5000, 81 per cent of those with a turnover of Rs.5000 to Rs.10000 70 per cent of those with a turnover of Rs.10000 to Rs.50000 depended on the local market; x but 46 per cent of those with a turnover of Rs.5 lakhs or above sold their products outside Ahmedabad as well. Only two of the 70 entrepreneurs reported to have any sales problems, one relating to the market and other to marketing finance.

Around half the entrepreneurs felt contented with the present size of their business and had no definite plans for expansion; 20 per cent did not plan to expand mostly because of the lack of finance and due to marketing problems in some cases. Of those with a turnover of over Rs.1 lakh, around 50 per cent planned to expand; while of those with turnover of less than Rs.10000 only 20 per cent and those with a turnover between Rs.10000 to Rs.50000, 33 per cent planned to expand. In the middle range of turnover of Rs.50,000 to Rs. 1 lakh only 9 per cent had plans for expansion. Most of those who plan to expand also feel that they will face problems mostly of finance; about one-fourth of them however, feel that they would not face any problem.

Thus while marketing does not seem to be a major problem, particularly with relatively larger units with a turnover of over Rs.1 lakh, finance is stated to be a constraint in operation and expansion. Surprisingly, only a small proportion have availed of external finance, in spite of all the current emphasis on the institutional financing of small units. May be, the difficulties in getting finance have kept the relatively smaller units, away from these sources, and therefore, having reconciled with their present lot, they are not planning to expand. Although availability of raw material is reported to be another problem faced by many units, none of them stated it as a reason for not planning to expand or as a likely problem to be faced in their plan of expansion.

CHAPTER IV

Structure of Informal Sector Activity :

(ii) Independent Workers

Besides the small establishments, the other form of production organisation in the informal sector consists of workers working on a self-employed or own account basis, manufacturing and selling their goods and services to establishments and households. In all economies the total workforce is distributed in different proportions among the employers, employees and such independent workers. Even where the society and the economy is highly organised some independent workers in the form of vendors of goods and personal household services are always present. In an economy predominantly carrying out its activities on the unorganised and household basis, such workers are to be found in a large proportion. This is true of most of the urban settlement in India, including the relatively large metropolitan cities. Independent workers constitute the smallest units in the category of establishments and are the simplest forms of production units in the informal sector. In terms of definite class categorisation, the independent workers are a nebulous category; they are not employed by others on payment of wages but major part of their incomes partakes the nature of wages. Such a mode of production is apparently free from direct exploitation of labour, but

economics of its operations are rarely found to be capable of sustenance and expansion. An abstract notion of 'independence' and 'self-respect' is, however, attached to it due to which a policy for expansion of 'independent workers' or 'self-employed' sector sometimes gets support from various quarters. For a rational judgement on these issues, the required information is generally lacking. The following account of independent workers in Ahmedabad, based on our survey would, therefore, be of some interest in this context.

I. Activities and Occupations

Independent workers are distributed among different divisions of activities more or less in proportion of the total informal sector employment : over one-third of them are in trade and commerce, about one-fourth in services, one-fifth in manufacturing, one-tenth in agriculture-related activities and 8 per cent in transport and communication : women constituted 5 per cent of the all independent workers : their proportion was higher at 8 and 7 per cent in trading and manufacturing activities.

Specific activities in which a sizeable number of independent workers are found are : retail trade in vegetables, fruits, fish, eggs etc. laundry services, transporting by man, hand cart, pedal rickshaw and motor vehicles; building

repairs, retail trade in beverages, tobacco products and foodstuffs; shoe repair; and hair dressing, each claiming over five per cent of the sampled workers (Table IV - 1).

Table IV - 1
Activity-wise Distribution of Sampled Independent Workers

Activity Code	Description of Activity	No. of workers	% of total sample
1. 213	Production of other (non-alcoholic) liquors	22	5.85
2. 311 + 314	Leather products (manufacturing and repair of shoes and other leather footwear)	29	7.71
3. 350 + 355 + 356	Manufacturing of earthen-ware (images, busts and statues, toys and artware)	7	1.86
4. 388	Repair of bicycles and tricycles	7	1.86
5.	Other manufactures	20	5.32
6. 400	Construction and maintenance of buildings including electrical and sanitary installation	32	8.51
7. 640	Retail trade in vegetables, fruits, fish, dairy products, eggs, etc.	62	16.50
8. 641 + 644 + 645 + 646	Retail trade in beverages (tee, coffee); bidi, cigarettes and tobacco products, coal, firewood and kerosene; foodstuffs, sweet cakes, biscuits, & etc.	31	8.25
9. 650 + 653	Retail trading in fibres and footwear etc.	18	4.79
10. 661 + 662 + 663 + 664	Retail trade in stationery goods and paper; metal porcelain and glass utensils; earthenware and toys and other household equipment	14	3.72
11. 684 + 689	Retail trade in clock and watches, eye glasses and unspecified products	17	4.52

Activity Code	Description of Activity	No. of work- ers	% of total sample
12. 702 + 704 + 709	Transporting by motor vehicles, animal transporting and trans- porting by man, carrying of luggage etc., hand cart driving, rickshaw pulling, cycle rickshaw driving etc.	34	9.04
13. 883	Laundry services	42	11.73
14. 884	Hair dressing	25	6.65
15. 890	Services n.e.c.	7	2.86
16. -	Others	9	2.39
		376	100.00

Accordingly, the major occupations in which independent workers were found to be engaged are : hawkers, pedlars and street vendors (42%), laundryman, washermen, and dhobis (10%), dairy workers (non-farm) (7%), barbers (5%) shoe makers and shoe repairers (5%), mechanics-repairmen (4%), motor vehicles and auto-rickshaw drivers (4%), and fishermen (3%). Male workers constituted virtually the entire workforce in almost all occupations except among hawkers, pedlars and street vendors and dhobis where one finds a significant proportion of women as well.

II. Employment

By definition, the independent workers carry out their activities single handed; some use family labour and only a

few, hired labour. Around two-thirds of them carried on their activity single-handed, without even the help of the other members of their families; and, only six per cent engaged non-family labour on wages. Independent workers do not seem to have any problem of finding work regularly. As many as 94 per cent workers work for more than 25 days. Those engaged in construction related activities, however, find work for somewhat smaller number of days. Females seem to have a slight edge over males in terms of the average number of days of work in a month; their average comes to 25.67 days as compared to 24.80 for males. Among the occupations where the independent workers were found to be numerous, the days of work in a month were over 25 in 95 per cent cases for hawkers, pedlars and street vendors, auto-rickshaw drivers, shoe makers and shoe repairers, mechanics-repairmen and dairy workers (non-farm); while in case of fishermen, and laundrymen a significant proportion of workers found work for less than 25 days. Most of the women workers were found in hawking and vending, and laundry business; and, all of them worked for over 25 days in a month.

III. Equipment and Tools

Almost all independent workers own some tools or equipment useful in their activities; the average amount of investment per worker in them being around Rs.600. About one-fourth of

them had equipment worth less than Rs.100, 31 per cent between Rs.100 to Rs.500, 11 per cent between Rs.500 to Rs.1000 and 18 per cent above Rs.1000. The equipment was mostly worth over Rs.1000 per worker in trades like fitting of electrical and sanitary installations (tools and equipment), transport by motor vehicles (autorickshaw), and retail trade in fibres and footwear (handcarts). On the other hand, most of the workers in manufacture and repair of leather products, retail trade in clock, watches and eye glasses etc., and hair-dressing had equipment worth less than Rs.100 each with them. Most of the workers in production of non-alcoholic liquors, manufacture of earthenwares, repair of bicycles and tricycles, retail trade in vegetables and other goods of household consumption and household equipment, and laundry services ^{had} and equipments worth Rs.200 to Rs.500 as accessories to their trade.

IV. Turnover and Value Added

With an average of capital equipment worth around Rs.600 and work for 25 days in a month an independent worker produced and sold goods or services worth Rs.990 per month (Table IV - 2). Around one third of them had a sales revenue of over Rs.1000 per month while 14 per cent had less than Rs.500 per month : one-fourth of them sold goods and services with Rs.250 - Rs.500 and another one-fourth between Rs. 500 - Rs.1000. The highest turnover of around Rs.2000 was obtained in retail trade in

Table IV - 2

Turnover and Earnings of Independent Workers

Classification (SIC Code)		Average sales/turn- over per month (Rs.)	Average value added/ earnings per. month (Rs.)
1.	213	960.77	539.54
2.	31; 311; 314	383.70	270.72
3.	350; 355; 356	732.14	538.71
4.	388	349.29	288.42
5.	40; 400	1456.50	828.12
6.	209; 239; 271; 281; 288; 331; 368; 392; 399	629.90	422.35
7.	640	1543.84	511.75
8.	641; 644; 645; 646	1942.58	785.98
9.	650; 653	1581.06	477.61
10.	661; 662; 663; 664;	853.14	491.64
11.	683; 684; 689	1364.12	830.23
12.	702; 704; 705	512.56	327.97
13.	883	536.64	434.69
14.	884	226.24	209.96
15.	890	256.43	212.85
16.	000; 753; 844; 850; 885	651.22	546.66
TOTAL		990.38	497.72

fibres and footwear and in vegetables, electrical and sanitary installations and retail trade in clocks, watches and eye glasses had a turnover of Rs.1400 to Rs.1600. Hair dressing gave the lowest turnover of Rs.226; repair of bicycles and manufacture and repair of shoes were other activities in the low turnover range.

In the case of these workers value added may be more or less equated with their earnings as hired labour was used only in a few cases and on this basis, an independent worker was found to earn around Rs.500 per month (Table IV - 2). A few workers earned less than Rs.100, 27 per cent of them earned between Rs.100 and Rs.250; 39 per cent between Rs.250 and Rs.500, 20 per cent between Rs.500 and Rs.1000, and 9 per cent over Rs.1000. It can be said that the value added was reasonably high to sustain livelihood in case of around two-thirds of the workers; one third can also be considered to be in a position to save for reinvestment and expansion. But in case of around one-third independent workers, their activity did not generated an income which was hardly adequate for their livelihood. These workers were mostly engaged in hair dressing and otherservices, shoe making and repair, and bicycle repairing; each of these activities generated less than Rs.300 value added per worker per month. The workers engaged in retail trade in clock and watches, eye glasses and unspecified products, installation and repair of electrical and sanitary fittings in buildings, retail trade in beverages, tobacco products and feedstuffs, production of non-alcoholic liquors, manufacture of earthenware, and retail trade in vegetables, fruits, fish and dairy products all earned at least Rs.500 per month. In general, trading activities seem to generate a relatively higher value added than the manufacture and repair and service activities.

At this stage let us also introduce in the discussion such casual workers whose incomes are not accounted for in the either segments we have considered so far — the establishments and independent workers — namely, the casual workers working for households on wages. They differ from the 'independent' category of the unattached workers in that their incomes are in the form of wages, which, however, are not accounted for in the estimation of income generation of units for which they work, as households are not supposed to be generating any incomes. Over half of these casual workers are engaged in services, another 36 per cent in transport sector, 10 per cent in agriculture related activity and two per cent in construction. The monthly earnings average to Rs.166.90; the highest (Rs.263.73) being in construction, followed by transport (Rs.231.77) and agriculture-related activities (Rs.194.83) and the lowest in services at Rs.114.20.

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V. Materials, Marketing and Finance

Let us briefly turn to some of the characteristics of the mode of operations by independent workers, the problems they encounter in their business and the levels of their satisfaction or otherwise with the activity they are carrying on. We have information on mode of sale; nature of demand for product and services produced by the independent workers; sources, mode and periodicity of procurement of raw material,

if any, used by them; borrowings for purchasing equipment; and, levels of satisfaction and aspirations. We will deal with each of them in turn in the following paragraphs.

In most cases the demand for the independent workers' products/services is of a perennial nature, it is seasonal only in one out of seven cases. Further, around three-fourths of them operate on the basis of a fixed location; and rest sell their wares on the basis of door to door vending. Practically all sell their goods/services to households; of the two per cent who sell to the units, half have some prior arrangements with them.

Around one-tenth of the workers carry on activities which does not require use of raw or other material for their activities. Of those who use some material or the other for their products or services, fifty per cent purchase it from the retailers, forty per cent from the wholesaler, another eight per cent from mandi and two per cent from other establishments. Thus it looks that at least half the independent workers make an attempt and are in a position to procure their materials at the lowest possible prices. A large proportion (45%) of the workers buy their requirements of materials daily, another seven per cent buy them once a week and 28 per cent buy an entire month's supplies at a time. Strangely enough, a larger percentage of

those buying from a wholesaler or mandi, than those buying from the retailers, buy on a daily basis. This apparently irrational behaviour of going daily to mandi and wholesalers to buy their requirements for each day and, to retailer to buy the whole month's requirements is difficult to explain. May be, those going to mandi and wholesaler to buy their daily requirements are unable to buy the whole month's supplies due to the non-availability of funds though they are willing to economise while those buying whole month's requirements at a time from the retailer are not keen on economising. Further, the practices may also differ according to the nature of product and marketing organisation. For example, vegetables will have to be bought daily and most of the time they can be purchased from a mandi. Of those who buy materials, almost 90 per cent pay for it in cash, six per cent get it on deferred payment basis most from the wholesalers, and, in four per cent cases the material supplier contracts out work to the independent workers. None of them seem to borrow for purchase of material. Nor have they generally borrowed funds for acquiring equipment.

Most of them have bought their equipment out of their own funds; only 5.5 per cent workers have taken loans for buying their equipment and accessories. One-third of them

have borrowed over Rs.5000 each and all of them are engaged in transporting by motor vehicles etc., mostly three wheeler autorickshaws. In this activity, one-third of the workers have borrowed for purchasing equipment mostly from commercial banks. In other activities, the proportion of those borrowing for this purpose is insignificant.

Although the earnings of the independent workers mostly compare favourably with those of the wage paid employees on an average, over 50 per cent of them do not feel satisfied with their present activity. Their levels of satisfaction and aspirations will be dealt with in greater details in the subsequent parts of this study, but it is worth noting here that around 55 per cent of the dissatisfied workers give 'inadequate earnings' as the reason; and 56 per cent of them aspire for a permanent wage-paid job in an establishment large or small. It looks that they tend to look at an employees' status with some envy, and even though they might be able to earn as much and, may be more, in their present activity, and they do have a notional 'independence', and, yet, they would prefer an employees' status, with more or less similar earnings, probably because of the ease in earnings in the latter as compared to the trouble they have to take in carrying on their present activities on their own.

CHAPTER V

Income and Employment Generation in Informal Sector : An Assessment

One of the major objectives of the present study is to assess the potential of the informal sector from the viewpoints of income generation, employment, and equity. Inevitably such an assessment would involve comparisons with the formal sector and between the various activities within the informal sector. In this chapter, we would put together the findings of the earlier chapters with a view to presenting a total picture of the informal sector for this purpose and to draw conclusions and implications regarding the performance and potential of this sector, and of the various activities within it.

I. Income Contribution of the Informal Sector

Let us start with the role that the informal sector in Ahmedabad city plays in generating incomes. As we have seen earlier, the rough estimates of value added per worker in the three segments of this sector — viz., establishments, independent workers and casual workers working for the households — turn out to be Rs.16376, Rs.5966.40 and Rs.2002.80 per annum. In the formal sector, value added per worker is estimated at around Rs.30,000 in the secondary and Rs.12,000 in the tertiary sectors, making an overall average of Rs.24,000 per worker.

The 1977 estimate of the labour force stood at around 6 lakhs which can be distributed among various segments according to the 1971 proportions and the total income generated in the city can thus be roughly estimated on the basis of productivity and employment structure.

Table V - 1

Gross Domestic Product of Ahmedabad City by
Sectors of Employment (1976)

Sectors	1971 % of labour force	1976 lab- our force ('000)	Value added per worker (Rs.)	Total value added (Rs. '000)
<u>Formal</u>	<u>53.50</u>	<u>320.40</u>	<u>24150</u>	<u>7722000</u> (71.75)
Secondary	36.00	215.40	30000	6462000 (60.00)
Tertiary	17.50	105.00	12000	12603000 (11.75)
<u>Informal</u>	<u>46.50</u>	<u>278.20</u>	<u>10940</u>	<u>3041697</u> (28.25)
Establishments	25.20	152.20	16376	2492927 (23.16)
Independent workers	14.00	84.00	5966	501144 (4.66)
Casual house- hold workers	7.30	42.00	2003	84126 (0.43)
TOTAL	100.00	598.60	17980	10763697 (100.00)

(Figures in brackets are percentages to the total)

✓ We find that the informal sector contributes around 28 per cent of the total domestic product of the Ahmedabad city, its contribution in employment being 46.5 per cent. The differences between the value adding potential of the two sectors are widely and understandably different; but within the informal sector, the major contribution (82%) is made by establishments, leaving a relatively small role for independent workers and hardly any significant role for casual wage earners working for households. Within the informal establishments sector, again the major contribution is made by the manufacturing establishments, which yield a value added per worker more or less equivalent to that in the manufacturing establishments in the formal sector. Of the total income generated by all establishments in this sector manufacturing establishments contributed around 78 per cent though their contribution in employment is around 45 per cent. In the independent workers segment which contributed 16.4 per cent of the informal sector income against 33.33 per cent in employment, the value added per worker was found higher in the trading activities than in manufacturing. In any case, the productivity of the independent workers segment of the informal sector is much lower as compared to those in establishments and therefore, its contribution has turned out to be small in total income.

II. Employment

But the independent workers' segment along with trade and commerce establishments in the informal sector contribute a significant share of employment in the city. Independent workers are estimated to constitute around 14 per cent and trade and commerce establishment around nine per cent of the total labour force in the city, but their contributions in the income of the city is estimated to be five per cent and 3 per cent respectively. The potential of the independent workers' segment to raise employment seems rather limited. Most of them work single-handed and only some take help from family members and a few engage hired labour occasionally. Almost one-half of them are earning an income which compares unfavourably with the wages of workers in the organised sector, and, therefore, their interest in continuing in and expanding their present activity is rather low; and, most of them seem to be marking time to get a chance to enter any establishment as wage paid employees. Increase in the provision of equipment and accessories to carry out their work does not seem to help much as we found that the levels of value added per worker bears no consistent relation with the value of equipment and accessories with the independent workers. Most of them have the necessary tools and equipment for carrying out their work. They also get work regularly, yet their earning levels

are low and they aspire for a wage-paid job. Further, activities which could be considered as relatively autonomous and do not entirely depend on the local market conditions for expansion, e.g. manufacturing, show one of the lowest productivity in the independent workers' segment. Trading activities show a relatively better performance but, their expansion and therefore, capacity to generate more employment depends entirely on the performance of the city economy as a whole. Thus, they cannot be looked upon as independent sources of employment and income generation.

Therefore, if the informal sector is to be used as an instrument for employment generation, one will have to turn to the establishment segment. Here the contribution of the manufacturing and trading establishments is more or less equal at around 55,000 persons each whereas, other services together contribute around 20,000; but 78 per cent of the incomes generated in this segment comes from the manufacturing establishments alone. Further, while in manufacturing establishments an addition of Rs.1 lakh worth of output generates one man year of employment, the trading activities require an expansion of Rs.5.5 lakhs in turnover in order to give employment to one additional hand. Over 1972-1977 the annual growth of turnover and employment was of the order of 15.54 and

9.36 per cent respectively in the manufacturing establishments while the respective figures for trade and commerce establishments are 13.24 and 2.6. In any case, trade and commerce activities have an induced rather than autonomous growth and, therefore, cannot be made to grow faster than warranted by the growth of other sectors and even if they grow fast, their employment potential seems very low.

III. Manufacturing Establishments : The Informal Sector's Key Segment

Thusone finds that the only segment of the informal sector that can be expected to contribute significantly to the income and employment growth is that of manufacturing establishments. It may be noted that while the entire informal sector employing 46.5 per cent of the city labour force contributes only 28 per cent of its domestic product, its manufacturing establishments segment produces 18 per cent of domestic product originating in the city through it employs only 9 per cent of the city labour force. This segment shows turnover per worker of Rs.85194, value added per worker of Rs.29728; required a total productive capital of Rs.66800 and a fixed capital of Rs.14850 per worker. A unit of total productive capital generates output of 1.28 units, and a unit of fixed capital generates output of 5.79 units; a rupee of total capital investment is found to generate value added worth Rs.0.45 and a rupee of fixed capital of Rs.2.00. These figures

are highly favourable as compared to the manufacturing activity in the organised sector. Over the recent period, however, the total capital requirements per unit of output have increased; the incremental output/capital ratio is 0.49 as against the average of 1.28 and incremental output/fixed capital ratio is also lower at 4.22 as against the average of 5.79.

The informal sector manufacturing units, however, do not show the same order of advantage over the organised sector units in case of capital-labour ratio as in the case of capital output ratio; though the advantage is still significant. Total productive capital per worker averages to Rs.1.30 lakhs and fixed capital per worker to around Rs.30,000 in the organised sector; the informal sector figures estimate to Rs.66,800 and Rs.14,850. The incremental capital intensity in the informal manufacturing sector has, however, been much higher at Rs.1,63,350 of total capital and Rs.19,100 of fixed capital during 1972-76. Thus the advantage in terms of lower capital intensity of employment seems disappearing in terms of total capital requirements although it still continues in terms of fixed capital requirements. The informal sector units are none the worse in terms of labour productivity; with output per worker of Rs.85,000 and value added per worker of Rs.30,000. It may, however, be noted that labour productivity also has declined marginally during the recent past, but the figure

still favourably compare with the organised sector. In fact, the value added per worker is found to be more or less the same in the formal and the informal sector manufacturing establishments.

IV. Industry Groups Within the Manufacturing Sector

Within the manufacturing sector, however, there are significant differences among industry groups in the income and employment potential in general and in relation to a given amount of capital investment in particular. Among the various sub-groups studied here metal products, cotton textiles, printing and publishing establishments have shown a very fast rate of growth of output, of them cotton textiles and printing and publishing also show reasonably high rates of growth in employment. Capital requirement per unit of output are relatively low in these industries; but total capital and fixed capital per worker are on a higher side specially in metal products and cotton textiles.

✓ It may be noted that employment expansion can only be sustained by output expansion and a lower capital requirement per unit of output should, therefore, form a criterion in judging the potential of creating productive employment in an activity. On this basis, cotton textiles, printing and publishing, metal products, machinery, food products and

transport equipment show a reasonably high figure (higher than one) of output/total capital ratio. A unit of fixed capital, produced 3.80 units of output in cotton textiles, 5.93 units in metal products, 5.75 units in machinery, 1.35 units in food products, 1.31 units in printing and publishing and 1.06 units in transport equipment, in the informal sector establishments.

During the period 1972-76, the informal manufacturing establishments sector as a whole has required around Rs.163 thousands of total capital and Rs.19 thousand of fixed capital to generate an additional manyear of employment, and one unit of total capital has generated 0.49 units of output and one unit of fixed capital 4.22 units of output. The industry groups, which have performed well in most respects i.e. have reasonably low capital intensity of employment and capital requirements of output, are cotton textiles, printing and publishing and transport equipment. Metal products and machinery have faired well in terms of capital requirements of output, but have very high capital requirements per unit of additional labour. Food products is x well placed in terms of capital intensity of labour but has miserably poor performance in terms of output to capital ratio.

V. Can Informal Units Grow Independent of Fermal Sector?

Thus it looks that the manufacturing units, particularly

in the industry groups, cotton textiles, printing and publishing, transport equipment, machinery and metal products, in that order, can develop, in the informal sector, with an advantage over the formal sector in generation of income and employment. It would, however, be erroneous to assume that they can develop independently of the formal sector expansion. As we saw earlier, a significant proportion of the informal sector units are producing intermediate products and selling to other units which quite often happen to be large units. Cotton textile units in the informal sector are generally engaged in printing, dying and processing and cater to the requirements of the large units, only garments and tailoring units are, generally, an exception to this phenomenon. Printing and publishing units cater to the demands from the institutions and large scale organisations. Most of the transport equipment units are engaged in repair, or in manufacture of parts and spares. So are the machinery units which most of the time make tools and spares to be used by large manufacturers or by consumers of their products. Metal product units in the informal sector are again mostly fabricating and repair units and make intermediate products for the large engineering units in the city. Thus the major part of such manufacturing activity in the informal sector which can be used as an instrument of growth of employment and incomes is dependent on the growth of

the formal sector and general expansion of activities in the city.

VI. Plight of Workers in the Informal Establishments

The In informal sector strategy needs to be viewed also from the angle of workers employed in this sector. As is well known their earning and conditions of work compare highly unfavourably with those working in the formal sector establishments. The legislative and organisational protection is generally not available to them for the amelioration of their conditions. We shall be dealing with the earnings, employment and living conditions of the workers in the informal sector in the subsequent parts of this study. It is, however, pertinent to point out some of the features which clearly bring out their disadvantaged position and warrant the necessity of corrective measures to provide a fair deal to them.

That the conditions of work of the workers in the informal sector establishments are generally poor can be indicated by a single indicator, viz., hours of work. Although, the hours of work of the employees of these establishments are presumably regulated under Shops and Commercial Establishments Act, in 38 per cent cases the workers reported working for more than eight hours a day, in 12 per cent cases over 10 hours a day. This 'violation' of the law is found in all types of establish-

ments, but it is rampant in eating houses, hotels and theatres. In manufacturing establishments around one-third of the workers had to work for hours longer than provided under the law, the percentage for shops is 27. The provision of a weekly off day also gets defeated in a large number of cases as many employers deduct wages for the day taken off by the employees. The conditions of work relating to space, sanitation, ventilation, hygiene etc., are far below the norms provided under the Factories Act (which does not apply to these establishments) in most of the manufacturing establishments.

The average earnings ~~as~~ per month of the workers in informal sector establishments work out to Rs.329 which given the cost of living in Ahmedabad city during 1977 may be considered good enough for subsistence of two adult equivalent units, while the average size of these workers families is around 3.5 adult equivalent units. That the wages in the informal sector are lower as compared to those in the formal sector is a well known fact, most of the time the reason is to be sought in lower labour productivity of the informal sector. This explanation does not stand to reason so far as the informal sector manufacturing units in Ahmedabad city are concerned : although value added per worker in these units is more or less the same as in the formal sector units, the average monthly wages in the informal sector units are Rs.332 against around Rs.600 in the

formal sector. This implies that the informal sector units tend to be more exploitative so far as the conditions of work and wages of their workers are concerned. Therefore, a policy for greater reliance on these units for growth to the extent it can be justified on the basis of output, employment and capital requirements criteria, should also be accompanied by measures to regulate conditions of work and wages of workers in this sector.

CHAPTER VI

The Informal Sector Workers : Socio-Economic Characteristics

It is well known that the workers in the informal sector are disadvantaged as compared to those in the organised sector in terms of employment conditions, earnings and, consequently, living conditions. Some aspects of their disadvantage were briefly mentioned in the earlier chapter. It should, however, be noted that the informal sector is characterised by a great degree of differentiation within itself, not only in terms of production and productivity but also of the working and living characteristics of workers. In this part of the study we portray the situation of the informal sector workers and also examine some of the propositions currently in vogue in relation to the migration and the labour market behaviour. Personal and socio-economic characteristics, migration, job changes and market practices, employment and earnings, and family living conditions are depicted and analysed for the entire sample of the workers as well as for each of the segments — establishment employees, independent workers, and casual workers separately. The present chapter deals with certain personal and socio-economic characteristics of the workers. The subsequent ones deal with migration; job changes, market practices, employment and earnings; and, family living conditions respectively.

I. Personal Characteristics

The labour force in the informal sector is predominantly male; women constitute only 6 per cent of the all workers in this sector as against around 10 per cent in the entire city labour force. Among casual workers, services provided the main avenue for women workers, where they constituted 19 per cent of the total workers; most of them were found working as domestic servants, or scavengers. Of the casual workers in construction, 9 per cent were women. Among the establishment workers women were mainly found in shops where they constituted six per cent of the workers. Similarly in the independent workers' segment women were found to some significant extent, say five per cent or more of the labour force in trade and commerce, and manufacturing.

An informal sector worker is on an average younger than an average worker in the city work-force : the average age of the former is 29.17 years as against 35 years of the latter. The workers in the informal establishments are on an average 28 years old, the average for casual workers is 27 years while the independent workers are relatively older at an average of 33 years. Almost three-fourths of the workers are in the age groups 15-35 years; two-fifths in the 15-25 years group and around six per cent are aged beyond 50 years. There was only one worker in the sample below 15 years of age. The age

difference between the informal and the formal sector workers to a certain extent goes to support the hypothesis that most of the new entrants in the labour market tend to go to the informal sector which is expected to provide vestibule for workers to go into better paid and more secure jobs in the formal sector.

Usually two out of three informal sector workers are married. The proportion is higher at 70.51 per cent for female workers, but more of the women workers in establishments are single than married probably because they are on an average younger at 23 years than the women workers in other segments of the informal sector. The proportion of married workers is higher at 73 per cent among independent workers and low at 59 per cent among establishment workers. This again seems to be a reflection of differences in the age structure. The same factor also accounts for a low proportion (41%) of the married among workers in the eating houses and as high as 82 per cent among the theatre workers within the establishments segment.

II. Education

The next characteristics that we attempted to look at was the educational levels of these workers. On an average an informal sector worker is found to have undergone 5.3 years of schooling; the establishment workers have an average schooling

of 8.3 years, independent workers of 3.7 years and casual workers of 3.5 years (Table VI - 1). While 33.66 per cent workers never went to school, 37 per cent have passed at least middle school (eighth standard) and 20 per cent at least high school. These figures compare not very unfavourably with those relating to the educational attainments of the workers in the organised manufacturing sector, where the average years of schooling came to around 8, those who never went to

Table VI - 1

Educational Attainments of Workers

(Percentages)

Educational Level	Workers of organised manufacturing sector	Informal sector workers			
		Establi- sment Employees	Indepe- ndent workers	Casual workers	Total
1. Never went to school	19.23	14.37	42.81	46.21	33.66
2. Went to school but did not pass primary school	6.94	6.78	12.50	12.45	10.40
3. Passed primary but not middle (VIII standard)	22.42	13.76	24.46	21.19	19.45
4. Passed middle but not High School	27.96	23.41	13.56	12.45	16.75
5. Passed High School or higher	23.45	41.68	6.64	7.19	19.74
Average years of schooling	8.00	8.3	3.7	3.5	5.3

* Figures from T.S. Papola and K.K. Subrahmanian : Wage Structure and Labour Mobility in a Local Labour Market : A Study in Ahmedabad, Sardar Patel Institute of Economic and Social Research, Ahmedabad and Popular Prakashan, Bombay, 1975 Appendix Table III - A - 4, p.165.

school constitute 19 per cent, those having passed at least middle school 50 per cent, and those having passed high school 23 per cent. It must however be noted that the differences would be much sharper if the organised sector figures included sectors other than manufacturing, particularly services as well. The more important point to note is, however, the sharp difference that exists in the educational attainment of establishment employees on the one hand, and independent and casual workers on the other, within the informal sector. In fact the establishment employees score over the organised manufacturing sector workers in their educational attainment, while the independent and casual workers lag far behind, with slightly less than half of them being illiterates and only 20 per cent having passed at least middle school. Among establishment employees almost two-thirds have passed at least middle school and 42 per cent at least high school.

III. Regional and Linguistic Origins

The informal sector workforce is predominantly Gujarati : around 73 per cent of the workers are from within the State of which 58 per cent are from Ahmedabad district itself. Other districts of Gujarat which contribute at least two per cent of the informal sector workforce are : Mehsana, Kheda, Rajkot and Banaskantha. Rajasthan, Uttar Pradesh and Maharashtra are the three other States contributing a significant proportion (15, 7 and 4 per cent respectively) of Ahmedabad's informal sector workforce. The pattern of places of origin is not very different

in the case of workers in the organised manufacturing sector : 73 per cent of them are from Gujarat, although only 19 per cent from Ahmedabad district; Rajasthan, U.P. and Maharashtra account for 13, 7 and 2 per cent of them.¹ But within the informal sector, one finds significant difference in the pattern of the origin of State between establishment workers and independent workers on the one hand, and casual workers on the other. The dominance of those belonging to Gujarat is overwhelming (over 75%) among the former two groups, while among casual workers 35 per cent of the workers are from outside the State. Further, while 55 per cent of the workers in the former two groups are from Ahmedabad itself, the proportion of such workers in the group of casual workers is only 39. Thus while majority of establishment and independent workers have local origin, 61 per cent of the casual workers have come from outside.

Although 73 per cent workers claimed to belong to Gujarat only 65 reported Gujarati as their mother tongue. May be the rest of them are second generation or third generation migrants from outside Gujarat and continue to retain their mother tongue as other than Gujarati. Here again one finds that while among establishment workers those with

¹ Cf. Papola and Subrahmanian, op cit., Table III - A - 2, p.163.

Gujarati mother tongue constitute 75 per cent, their percentage is 64 among independent workers and 57 among casual workers. Hindi is the other important language used as mother tongue : 28 per cent workers claim it as such. The percentage of those with Hindi as mother tongue varies significantly among the three groups : they constitute 36 per cent of casual workers, 30 per cent of independent workers but only 19 per cent of those working in establishments. Marathi is another language claimed as mother tongue by a significant proportion (4%) of workers. No other language group forms even one per cent of the informal sector workforce.

IV. Occupations

The pattern of occupation in which the informal sector workers are engaged seems to distinguish quite clearly among the three segments of workers : the establishment workers have a predominance of white collar jobs; vending of goods, repair, work involving some fineness and skill and transport are the main activities carried on by independent workers; and the casual workers are mostly found in industrial occupations, domestic service and construction. The degree of manuality of jobs increases as we pass from establishment workers to independent to casual workers.

The informal sector workers are to be found in all varieties of occupations. The occupations which claim at least two per cent of the workers in the sample are hawkers, pedlars and street vendors (13%), domestic butlers, bearers and servants (8%), salesmen and shop assistants (6%), clerks (6%), book keepers, cashiers and accounts clerks (5%), watchmen and chawkidars (5%), cleaners and sweepers (5%), brick layers, plasters and masons (5%), farm workers - gardeners etc. (4%), non-electrical mechanics and repairman (3.5%), launderers, dry cleaners and pressers (3%), spinners, weavers, dyers, knitters etc. (3%), institutional waiters (2.5%), motor vehicle and auto-drivers (2.5%), non-farm daily workers (2%), and barbers and hair-dressers (2%).

Around 50 per cent of the establishment workers are in the white collar jobs such as clerks, typists, book keepers, office attendants, agents and brokers, and salesmen and shop assistants, another 15 per cent in skilled manufacturing occupations such as mechanics, fitters, compositors, and book binders; watchmen and institutional waiters make 10 and 8 per cent and cleaners and sweepers another 5 per cent. Among the independent workers, hawkers, pedlars and street vendors alone make 40 per cent of the total workers; launderers, dry cleaners and pressers make another 10 per cent, dairy workers (non farm)

and, barbers and hair dressers, seven per cent each, auto and cycle rickshaw drivers 5 per cent; shoe makers and repairer another five per cent, machanics, repairmen 4 per cent, and fisher men 3 per cent. Among casual workers, the largest group consists of domestic butlers, waiters, maids and servants, accounting for 22 per cent of the total; farm workers (gardners etc.) and, cleaners and sweepers account for 10 per cent each; cycle rickshaw drivers for 7 per cent and auto rickshaw drivers for 3 per cent; industrial occupations like spinners, weavers, knitters and dyers and mechanics account for 10 per cent of the casual workers; and construction workers another 12 per cent. Watchmen and chawkidars and carpenters are the other important occupations in this group.

Looking occupation-wise, all clerks, accountants, agents and sales assistants ^{and a} ~~are in~~ sizeable proportion of skilled industrial workers are working for establishments, almost all hawkers, pedlars and street vendors most of the launderers, dry cleaners and pressers, sweepers, dairy workers, barbers and hair dressers are in the category of independent workers; all domestic butlers, maids and servants, and all brick layers and masons are casual workers. Watchmen and chowkidars are in significant numbers both in establishments and casual segments; and mechanics and repairmen are distributed among all the three segments more or less evenly.

V. Conclusion

Although the informal sector workers are generally in the lowest rung of the socio-economic ladders of a city, there seem to be significant differentiation even among the different segments of this group. The hierarchy is of the following descending order : establishment workers, independent workers and casual workers. Take any of the characteristics described above : educational levels, proportion of scheduled castes and scheduled tribes, rootlessness in terms of not having a family or parental occupation to fall back upon or of working away from one's native place, and the likeability of the job, one finds the casual workers are the most disadvantaged, and workers in the establishment are relatively best off. In fact, the establishment workers reveal some of the characteristics, such as educational levels and occupation, which makes them closer to the formal sector workers than to the workers in the other segments of the informal sector. To top it all, as if the proportion of women workers is an indicator of the low socio-economic levels, they constitute over 10 per cent among casual workers while only 5.5 and 2.5 per cent among independent and establishment workers respectively. Scheduled caste/tribes account for 27 per cent of the casual workers while they constitute only 11 and 7 per cent among independent and establishment workers.

No doubt, the casual workers are relatively younger, but that is only an indication of the fact that they have been in the labour market only for a few years and have not yet been able to establish themselves in a job or vocation. On the other hand, establishment workers with more or less similar age structure but with significantly better educational qualifications combined with familiarity with ^{and} ~~the~~ access to better opportunities, because of their predominantly local origin, have been able to fix themselves up in regular and better paid jobs in establishments.

CHAPTER VII

Migration

Usually it is presumed that the informal sector workers have a larger migrant component than the formal sector workers. The logic advanced in this connection is that the local workers are in a better position to directly enter the organised sector due to their better knowledge about the market and better accessibility to the formal sector units. The migrant workers are rarely expected to directly enter organised sector jobs; they graduate to that sector, if at all, only after a period of 'apprenticeship' in the informal sector.

I. Migrants Among Informal Sector Workers

It is true that around 55 per cent of the workers in the informal sector in Ahmedabad city are migrants; but in an earlier study,¹ we found that as many as 84 per cent of the workers in the organised manufacturing sector were also migrants. Gujarat State as a whole contributed 73 per cent of the workers both in the organised manufacturing sector and the informal sector; those reporting Ahmedabad city as the place of their birth, however, contributed only 16 per cent of the organised manufacturing workforce, they constituted 45 per cent among the informal sector workers. No doubt the

1 T.S. Papola and K.K. Subrahmanian, op cit. p.59-60.

proportion of migrants is higher among the workers in the organised manufacturing sector than in the informal sector; but that may only indicate that a large number of migrants who initially entered the informal sector in the past have over the time graduated to the organised sector. We do not have details about the 'route' that the organised sector workers followed to enter it, but we have figures of duration of stay of migrant workers in the city. For the 'graduation' hypothesis to be plausible, one would expect that migrant workers belonging to the organised sector have a longer period of stay in the city than those belonging to the informal sector. It is found that in the organised manufacturing sector 35 per cent workers are migrants with over 20 years standing and 57 per cent are migrants with over 10 years standing in the city.² Among the informal sector workers on the other hand, such groups constitute 12 and 26 per cent respectively. Recent migrants, those having come to the city only during the last five years before the study, constitute only eight per cent among the organised manufacturing sector workers while their percentage is 17 among the informal sector workers. The average duration of stay in the city is around 19 years in the case of the migrant workers in the organised manufacturing sector, as against 11.53 years in the case of migrant workers of the informal sector. Thus it looks that a higher proportion of migrants in the organised than in the

² Papola and Subrahmanian, op cit. p.60 and Table III - A - 3, p.164.

informal sector is a result of the movement of migrants from the informal to the formal sector over the period and a decline in the rate of migration in the recent period.

Table VII - 1
Distribution of Workers by Non-Migrant and
Migrant Status

Categories	(Percentages)						
	Non-Migrant			Migrant			Total
	Male	Female	Total	Male	Female	Total	
Establishment workers	49.90	1.85	51.75	47.63	0.62	48.25	100.00
Independent workers	44.15	5.07	49.22	47.34	3.44	50.78	100.00
Casual workers	31.01	4.01	35.02	59.07	5.91	64.98	100.00
TOTAL	42.56	2.54	45.10	51.61	3.29	54.90	100.00

The hypothesis relating to the predominance of migrants among the most informal, insecure, and low earning jobs, however, seems to hold within the informal sector to the extent there is significant different^{cc} in the migrant-non-migrant proportions among the three sub-sector — establishment workers, independent workers and casual workers — of the informal sector. Around two-thirds of the casual workers are migrants, while their percentages among independent workers and establishment workers are 51 and 48 respectively (Table VII - 1). The position of

the workers in the informal sector stands most disadvantaged in the casual segment and the least disadvantaged in the establishments, as we have seen earlier.

II. Motivation in Migration

Most of the workers were quite young at the time of their migration to the city : on an average a worker was 18 yearsold at the time of migration. Four-fifths of them migrated when they were below 25 years of age and 29 per cent when they were not even 15 years old. Yet 55 per cent of them were married before migration. Although the age structure of the workers at migration did not vary significantly among the three segments of the informal sector workers, one find significant variation among the establishment workers, independent workers, and casual workers in their marital status before migration : 57 per cent among the first group and 74 per cent among the second group were married, but 58 per cent of the migrant casual workers were unmarried at the time of migration.

A large proportion, over four-fifths, of the migrant women workers who are now engaged in work in the informal sector, were married at the time of migration, and they did not come to Ahmedabad specifically to seek work : most of them came to join their families. One-fourth of the male migrants,

mostly young, also came to the city for the same motivation. Over one-half of the males migrated with a view to permanent wage employment, and another 11 per cent to seek temporary employment. Among women migrant workers only 5 per cent came in search of permanent and 7 per cent in search of temporary employment. Of the 8 per cent who migrated with the intention of starting their own business, four-fifths have succeeded to some extent, in that they are working as independent workers. Of the small number who came for education, *most* are now working in the establishments as regular workers, presumably after completing their education.

Table VII - 2

Purpose of Migration

Purpose	(Percentage)		
	Male	Female	Total
Education	3.48	2.27	3.41
To join family	24.93	81.82	28.34
To seek temporary employment	10.72	4.55	10.35
To seek permanent employment	51.16	6.82	48.50
To start business	8.12	2.27	7.77
Others	1.59	2.27	1.63
TOTAL	100.00	100.00	100.00

As regards the reasons as to why, in the first place,

they migrated from their native places, information was sought only from such workers who migrated with an economic motivation. Over half of the migrants stated inadequate income as the reason for moving out of their native place, another 40 per cent reported underemployment as the reason. Around eight per cent had no such compulsive reason, but an impulsive one : they were attracted by the charm of city life. One per cent migrant workers were forced to migrate due to loss of property and source of income as a result of natural calamities and another one per cent due to the reason of transfer of job.

III. Pre-Migration Economic Status

The reasons given above for migration get more or less corroborated by the pattern of activity status of migrant workers. Around 30 per cent of them were not engaged in any economic activity because they were either students or unemployed; another twenty per cent worked in occupations characterised by underemployment and low earnings, such as landless labourers, and village craftsmen; 10 per cent worked as non-farm wage labour in the rural areas, and 11 per cent in the urban areas. Only around eight per cent were engaged as unpaid family workers on own business and trade, but most of them also reported to be underemployed. Only 22

per cent of the migrants worked on family farms before migration; low income rather than lack of work is given as the main reason for migration by them. Besides them, some other migrants also owned land, though they did not work on family farms. In all, 36 per cent of the migrants owned land, one-third of them below 2.5 acres each and another one third between 2.5 to 5.0 acres each. Of course, five per cent owned over 10 acres; and, most of the migrants who gave attraction to city life as the motivation for migration come from this category of land owners.

The average size of the migrants' family consisted of 5.62 persons of which 3.29 were in the working age group and 2.33 in the age groups too young or too old to work. In fact, however, 2.41 members were actually working while 3.21 were unemployed or outside the labour force. The incidence of unemployment was thus 0.88 persons per family, or 27 per cent of the labour force or 16 per cent of population of the migrants families. The dependency ratio among these families worked out as 2.32 persons per worker. With low incomes per worker this may be considered a high enough dependency ratio to reduce the per capita income and levels of living below the poverty line and hence drive some of the family members to migration. Around 30 per cent of the migrants' families had less than Rs.30 per capita income per month and over-two-thirds had less

than Rs.50 per month (at 1977 price level). Those who migrated for the reason of underemployment seem to be slightly better off with around 65 per cent of their families having a per capita monthly income of Rs.50 or more than those giving inadequate income as reason among whom only 33 per cent had a per capita family income as high as that. A sizeable proportion, over one-third of the migrant workers' families were understandably indebted : around nine per cent had an outstanding debt of Rs.5000 or more; and 72 per cent of Rs.1000 or more.

IV. Income Advantage on Migration

While all workers would gain by migration in terms of the life time expected earnings, we presume that most of the workers are equally motivated by immediate and short term gains. The life time expected earnings hypothesis presupposes, first, information on earnings in different jobs a migrant worker might work in during his stay in an urban area; and, second, the workers' firm decision to stay in an urban area, at the time of migration itself. Since these two conditions are seldom fulfilled in the process of rural-urban migration in India, the life time expected earnings advantage may act only as a weak and remote motivation in migration. On the other hand, a worker is more or less definite that he will

get immediately something better in the urban area than he is earning at his native place; and, he does not make up his mind firmly to continue in the urban area permanently at the time of migration, the rural-urban current earning differential hypothesis seems more relevant in the Indian case. The life time expected earnings hypothesis also implied that most of the migrant workers are willing to work even on an earning lower than those in the native place, since they know that they will be earning much higher during their whole working life in the urban area than in the native place. The rural-urban current earnings differential hypothesis on the other hand, would require that the earnings in the first job after migration are not lower than those in the native place.

We do find that 14 per cent of the migrant workers started work in Ahmedabad in a job which fetched them lower earnings than what they earned as wages or shared as per capita income in the family at the native place. Most of these workers were engaged before migration, on family farms, family business, and work for village community. The rest 86 per cent workers immediately gained by migration as all of them earned higher in their first job than their per capita income in the native place. Almost half of the migrant workers gained by over 100 per cent in earnings by migration; and another one-third by 25 to 100 per cent.

Table VII - 3

Current Earnings Advantage on Migration

Monthly earning in the first job in the city as percentage to the earning at the native place	(Percentage of workers)	
	All migrant workers	Migrant workers engaged as wage labour before migration
50 or less	4.49	7.27
50 - 75	2.04	6.06
75 - 100	7.51	12.63
100 - 125	6.94	3.63
125 - 150	10.20	7.27
150 - 200	21.63	20.00
200 - 300	25.92	27.27
300 - 400	12.86	10.30
Above 400	8.36	5.56
TOTAL	100.00	100.00

Let us look at such cases only where the income at the native place was not merely an attributed share in the family income, irrespective of the migrant workers' contribution to it, but was distinctly earned by him as wages for his work. The immediate gains of such migrants are not as extensive as of all migrants together, for, as many as 26 per cent among them landed in a job, immediately on migration, which fetched them lower wages than they were earning in the

job at the native place. It may, however, be noted that most of them were earlier casual workers on farms and had only irregular employment and income. On the other hand, about 63 per cent of these workers at least doubled their earnings immediately on migration. On an average, the gains of these workers thus turned out to be higher than those who did not have any independent income before migration.

Thus the current rural-urban earnings difference hypothesis stands substantially confirmed. That, however, does not mean that the life time expected earnings would not be higher on migration, they will certainly be higher, more so if the current earnings themselves are higher. This proposition gets further strength from our finding below and in the next chapter, that the migrants do not have to wait for long before getting work in the city, nor do they face any long period unemployment in between jobs.

V. Waiting Period

Migration into the cities is certainly less troublesome and therefore more likely if some one from the family or native place is already living there. If the 'sponsored' migration is interpreted in this wide sense, then we find that 53 per cent of migrant workers in the informal sector

were 'sponsored'. One per cent were also commissioned by jobbers and contractors. But 46 per cent migrated with no option but to take care of themselves in the city. Even those whom we have called 'sponsored' migrants, did not, however, have a job 'fixed' or 'assured' for themselves; they certainly had a place to stay and some support during the waiting period. Thus most of the workers migrated without any definite job in their hands, or may be, even in their minds. Yet over half of the migrant workers did not have to wait at all, before starting work and earnings in ahmedabad. The average waiting period was about one and a half month for all migrant workers together, but only eight per cent had to wait for over six months; 13 per cent for over three months; while 19 per cent, had to wait for less than one month before starting earnings. The young and the illiterate and those with primary and secondary level of education waited much less than the old and the semi-literate and highly educated. The young migrants, those below 15 years of age had to wait on an average for 14 days; those in the age group 15 - 25 years for 38 days; those in the age group 25 - 40 for 56 days and those above 40 years for 50 days.

Those with a few years (1 - 3) of schooling, and those

who had gone upto college level, have had a waiting period far above the average. The illiterates, and those with primary and middle levels of education waited for less than the average period.

The migrants may have to wait shorter or longer over the different periods depending on the job situation in the city. For this reason we thought it worthwhile to examine if the situation has differed at different times in the past. Of those who migrated upto 1950, 60 per cent did not have to wait. The period 1950-55, seems ^{to} have been rather difficult as only 30 per cent of the migrants got work without waiting during this period. Since then the situation seems to have improve as over 55 per cent of the subsequent migrants did not have to wait, except during 1965-70 where 60 per cent had to wait. Those who had to wait for over six months also constituted 20 and 13 per cent respectively during the periods 1950-55 and 1965-70. Thus the Ahmedabad labour market provided easy access to migrants during the period immediately preceding 1950, periods 1955-65 and 1970-76 were also relatively easy, but opportunities were difficult to come by during 1950-1955 and then during 1965-70.

Who supported the workers during the period they waited to get work? As we noticed earlier, 52 per cent workers were 'sponsored' migrants in the sense that some of their

family members or relatives were already there in the city to take care of them. Of the total workers only less than half had to wait and nine-tenths of them were taken care of by family members, relatives, friends and others; only nine per cent waited on their own on the basis of remittances from home. Thus it looks that the migrant workers of the informal sector did not have to undergo any great hardship on migration to Ahmedabad; they either got work immediately or after waiting, on an average, for less than two months, and most of those who had to wait had somebody to offer them food and shelter in the city.

VI. Link with Native Place

If visit to the native place is an indication of a migrant worker's link with 'home', two-fifths of the migrant workers of the informal sector in Ahmedabad city seem to have severed their links with the native place. They did not pay any visits to their place of origin during 1974-76. The rest, continue their links in that they visited their native places; 38 per cent paid one visit, 10 per cent two and 14 per cent three or more visits each during the period. Most of these visits have been of short duration : 84 per cent visits were for less than one month. The migrant workers generally visit their native places during March and September -

October. These are the months of agricultural seasons, and they also coincide with long vacations in the schools and colleges. Most of the workers reported visit to relatives and ceremonies as the purposes of their trips. In eight per cent cases, the visits were made for attending to family work and in a few cases to finalise property transactions. Thus the predominant purpose of the visits is found to be social rather than economic.

The migrants' relationship with the native place, is however, of a deeper nature than is indicated by the above pattern of purposes of visits. They may not be visiting for any economic motive, the scope for which is, in any case, highly limited, but the interest in the native place is quite active in case of 70 per cent of them who have some dependents staying there, and 84 per cent of such workers send remittances for the maintenance of their dependents. The remittances amount to a substantial figure, a migrant worker on an average sent Rs.521 to his native place during 1976. Over half of them sent more than Rs.500 each and 23 per cent more than Rs.1000 each. Obviously, these workers have more than a marginal interest in maintaining links with their native place.

VII. Conclusion

A worker mostly migrates to a city with an eye primarily on a better paid and secure job in the organised sector; but generally ends up working in the informal sector. Slow pace of expansion of employment opportunities in the organised sector is, therefore, likely to affect the rate of migration into the city and of increase in informal sector labour force negatively. This phenomenon seems to be operating in Ahmedabad for some time past, and thus we find that the informal sector has a smaller proportion of its labour force as migrants, than the formal sector. That the new migrants have not directly entered the formal sector is suggested by the fact that migrants in this sector have been in the city for significantly longer period than those in the informal sector. But within the informal sector, casual workers have a larger migrant component than independent workers, and independent workers than the establishment workers, which goes to suggest that workers in the least secure and lowest paid jobs, are migrants more often, than those in more secure and better paid jobs.

Most of the migrants migrated in search of work, although a significant proportion of all migrants, and over four-fifths of female migrants moved to the city to join

join their families. Those who migrated with economic motivation had the reasons of inadequate work and income pushing them out of their native place. Over two-thirds of the migrants had a per capita household income below the poverty line at the place of their origin; and one-third of the families were in debts of varying magnitudes.

Even if their aspiration of finding a formal sector job was not immediately fulfilled, and for many of them it remains unfulfilled even after over 10 years stay in the city, most of them gained significantly in terms of current income, on migration. Even after accounting for differences in cost of living between rural areas from where most of the migrants originated, and the city, over four-fifths of the migrants gained in income in their first job in the city. And what is more significant, they did not have to wait long before finding work and most of them had a member of their family, a relative or friend to provide shelter and food during the waiting period. Despite the ^e case of migration and of securing of work, and gains in earnings, most workers have continued to have interest in their native place, in terms of paying annual visits, and more often sending regular remittances to the members of the family left behind. This might be necessary as with their income levels they find it

difficult to support their entire families ⁱⁿ to the city, and with the insecurity of work in the urban-informal sector they would also like to retain the link with the village as an insurance to fall back upon in the event of losing job in the city.

CHAPTER VIII

Jobs, Employment and Earnings

It is usually observed that there is a limited interaction between the informal and formal sector labour markets; the two have more or less independent sources of labour supply, and different pattern of skills and experience of workers; and, while the informal sector has an open labour market, entry into formal sector is highly restricted on account of standard hiring practices. The only interaction between the two markets is either in the form of the limited 'graduation' of a few workers from the informal to formal sector, or in the informal sector's role of an absorber of the rejects of the formal sector. That the informal sector workers in Ahmedabad have limited opportunities to enter the formal sector is indicated by the fact that most of them have been in the informal sector for a period of over 10 years, although it can be presumed that most of them would have liked to move up to the formal sector. That some movement is affected is, however, suggested by the fact that the age structure of the informal sector workers is biased in favour of the relatively young : only one-fourth of the informal sector workers are beyond 35 years of age, as compared to

45 per cent of the formal sector workers. One, therefore, presumes that some informal sector workers succeed in securing a job in the organised sector, although it usually takes around 10-15 years, which is rather too long for 'apprenticeship' !

I. Changes in Employment Status

Besides, we have also seen that there is a hierarchy of status within the informal sector in terms of its three segments; and one may expect some degree of 'upward' mobility within this sector. The information relating to the career of the workers in our sample, however, does not support such a hypothesis. In fact, we find a reverse trend. It is observed that a sizeable proportion of the workers who started as regular workers in the establishments, large or small, have reverted to the status of independent or casual workers. Most of these workers are rejects (retrenched) from the formal sector. A sizeable proportion (around 30%) of the independent workers were, to begin with, either casual workers or regular workers mostly in large establishments. On the other hand, nine per cent of workers who started as independent workers had to take up casual wage labour, and only one per cent could get a regular establishment job. Of today's casual workers,

12 per cent started as regular establishment workers, five per cent as independent workers. Of those who started as casual workers 13 per cent have taken up independent work and three per cent have secured regular jobs in establishments.

Table VIII - 1
Changes in the Nature of Employment

Category (present status)	Started as regular	Started as inde- pendent	Started as casual	Total
Establishment workers	468	3	16	487 ^(36.42)
Independent workers	56	261	59	376 ^(28.12)
Casual workers	63	26	385	474 ^(35.45)
TOTAL	587 (43.90)	290 (21.69)	460 (34.41)	1337 (100.00)

On the whole, 80 per cent of those who started as establishment workers, 90 per cent of those who started as independent workers and 85 per cent of those who started as casual worker have retained the same status. The largest movement has been into the independent workers segment : although, to begin with, only 22 per cent workers covered in our sample were independent workers, now 28 per cent are found in this category. The establishment workers constituted 44 per cent

and casual workers 34 per cent of the sampled work force by their starting activity, they constitute 36 and 35 per cent respectively at present. Thus the main out-flow has been from the establishments to the independent sector. It is difficult to call it upward mobility if the characteristics of the workers in the three segments and expressed aspirations of workers are any guide.

The above account relates only to the first job/activity and the current job/activity of the informal sector workers. Some of them have in between taken up and left paid jobs. We find that while 52.58 per cent workers have stuck to the work and job they started with, 47.42 per cent have changed jobs, 32 per cent once, eleven per cent twice, three per cent thrice and one per cent more often. Naturally, those in younger age groups have changed jobs less often than those in older age groups. One out of the six job changes was involuntary, the workers were either retrenched or dismissed; or the contraction in demand or technological change led to a diminution of activity or closure of the unit. In thirty per cent cases, the workers gave up a job voluntarily ^{for} personal reasons of ^{un}likeability of job and health. Over 50 per cent jobs were, however, changed due to reasons of low earnings in them, which implies a change over to a better paid job or activity.

The information on job market passes in the informal sector through informal channels only. Thus in all but two per cent cases the information about the wage paid jobs held by the workers, was obtained by them either by hunting on their own or was supplied by a friend or relative. In a few cases, a jobber or contractor helped. Channels like advertisements and employment exchanges were never used even in securing jobs in the establishments.

It is interesting to note that the labour market of the informal sector in Ahmedabad seems to provide easy switch-over between jobs, without resulting into any idleness between leaving one job and finding another. Of the workers who changed jobs once or more often only a few (6%) faced any unemployment in between the jobs. Of those who faced unemployment, however, most had to remain without work for over one year. It is, however, found that many of them were not actively searching for work during this period, and had, in fact, left Ahmedabad for their native place and returned only after one year or longer.

II. Present Activity : Employment and Earnings

Besides the ease of switch over from one job to another and relative absence of frictional unemployment, the in-

formal sector workers also seem well placed in terms of availability of work and employment on a regular and continuing basis in their present activity. So far as the establishment workers are concerned, they are, in any case, employed on a regular basis and do not face problems regarding availability of work. But the independent and casual workers also find work for, on an average, 24.44 days in a month. Independent workers are slightly better off than the casual workers in so far as the average days of work for the former is 25 while that for the latter works out to 24. In their case, however, this figure ^{does} ~~has~~ not *have* much significance in so far as it is upto themselves to decide as to how many days in a month they would like to work. On the whole, 78 per cent of workers found work for 25 days or more days per month, 14 per cent for 20 to 25 days and five per cent for 15 to 20 days. Three per cent workers are highly underemployed to the extent they do not get work for more than 15 days in a month. These underemployed workers are all casual workers engaged in the manufacturing sector, construction, transport and communication and services.

A month's work, however, fetches only Rs.190 to a casual worker, while it brings Rs.385 to an independent worker and Rs.329 to an establishment worker, the overall average for

Table VIII - 2

Distribution of Workers by Monthly Employment
(Independent and Casual Workers)

Division	Less than 10 days		10 - 15 days		15 - 20 days		20 - 25 days		25 days & above		Total	Average monthly employment (days)									
	I	C	Total	I	C	Total	I	C	Total	I			C	Total							
Agriculture etc.	-	-	-	2	2	-	4	4	3	3	6	35	40	75	38	49	87	26	27	26.5	
Manufacturing	-	3	3	-	9	9	1	14	15	2	20	22	74	39	113	77	85	162	25	21	22.9
Construction	-	-	-	1	1	-	14	14	2	28	30	1	27	28	3	70	73	22	22	22.0	
Trade and Commerce	-	-	-	1	1	2	-	2	4	1	4	132	6	138	138	8	146	25	22	24.8	
Transport and Communication	-	1	1	-	3	3	-	3	3	1	9	10	32	53	85	33	69	102	25	25	25.0
Services	-	1	1	1	2	3	-	8	8	7	39	46	79	143	222	87	193	280	24	26	25.3
TOTAL	-	5	5	1	18	19	3	43	46	19	100	119	353	308	661	376	474	850	25	24	24.4
%			(0.59)			(2.24)			(5.41)		(14.00)			(77.76)		(100)					

Note : I = Independent; C = Casual

Table VIII - 3

Distribution of Workers by Monthly Earnings

Category/Division	Less than Rs. 100	100-200	200-500	500 +	Total	Average earnings
Shops	-	13	121	9	143	341.26
Commercial establishments	-	9	111	9	129	346.51
Manufacturing establishments	1	15	99	7	122	331.56
Eating houses	1	12	18	1	32	270.31
Residential hotels	-	11	6	-	17	220.59
Theatres	2	8	34	2	44	320.45
<u>Establishment workers (Total)</u>	(0.41)	(13.96)	(79.88)	(5.75)	(100.00)	
Agriculture etc.	-	3	19	16	38	591.63
Manufacturing	3	15	37	22	77	411.21
Construction	-	-	3	-	3	365.00
Trade and commerce	1	30	81	26	138	353.60
Transport & communication	-	3	24	6	33	379.39
Services	5	19	50	13	87	322.11
<u>Independent workers (Total)</u>	(2.40)	(18.62)	(56.91)	(22.07)	(100.00)	384.52
Agriculture etc.	3	18	28	-	49	222.94
Manufacturing	8	32	45	-	85	207.78
Construction	2	20	46	2	70	232.43
Trade and commerce	1	4	2	1	8	219.38
Transport and communication	3	26	39	1	69	228.52
Services	66	86	40	1	193	144.53
<u>Casual workers (Total)</u>	(17.51)	(39.24)	(42.19)	(1.05)	(100.00)	190.36
<u>GRAND TOTAL</u>	94 (7.03)	324 (24.23)	803 (60.00)	116 (8.75)	1337 (100.00)	295.00

all groups together being Rs.295.63. Majority of the workers (60%) earn between Rs.200 to Rs.500 per month; but 31 per cent have an earning of below Rs.200, seven per cent below Rs.100 per month; and, nine per cent earn beyond Rs.500 per month. The distribution of workers by their earnings range is less unequal in the case of establishment workers of whom 80 per cent earn between Rs.200 to Rs.500, six per cent more than Rs.500 and 14 per cent between Rs.100 and Rs.200. Independent workers who on an average earn the highest, also have 21 per cent among them earning less than Rs.200 per month. Among casual workers, those earning less than Rs.200 constitute 57 per cent, and those with less than Rs.100 earnings per month, 18 per cent.

The independent workers have a greater range of earnings activity-wise also. The agriculture related activities (mainly dairying) bring a monthly earning of Rs.592 to an independent worker; while those engaged in services (mainly barbers, washermen etc) earn an average of Rs.322. Among the casual workers there is much smaller difference in earnings among the various divisions of activities. The highest earnings of a casual worker are found in construction, despite a lower average employment per month, at Rs.232, and the lowest in services (mainly domestic) at Rs.144. Among the establishments, commercial establish-

ments on an average pay the highest at Rs.347 per month to their workers, while the lowest is paid at Rs.221 by residential hotels. It may, however, be noted that the figures of earnings in the hotels may be an underestimate to the extent of excludes benefits in kind such as food and accommodation, and tips paid by the customers. A tentative estimate of such earnings comes to around Rs.50 per month. Thus the range of earning differentials among different kind of establishments is not very high, the lowest being around Rs.270 and the highest Rs.347.

The independent workers do earn the highest on an average, but quite a few among them have also miserably low earnings. The casual workers earn low, and a large percentage of them earn even less than what could be considered a subsistence wage in Ahmedabad city. The establishment workers earn reasonably well, in all types of establishments, and there is only a small percentage of such workers among them who do not earn at least a subsistence wage. Thus the structure of earnings also fits well with the hierarchical order of workers in the three segments of the informal sector : establishment workers, independent workers and casual workers.

There are significant differences in earnings among

various occupations. Workers in the following occupations earn on an average over Rs.400 per month; operators of earth moving machinery in construction working independently (Rs.700), independent dairy workers (Rs.607), real estate agents (Rs.418), machine tool operators (Rs.442), glass and clay formers (Rs.444) and movie camera operators (Rs.419) working in establishments. The only major occupation group yielding a month earning below Rs.200 is that of domestic servants working on a casual basis for the households.

A number of occupations are found in more than one segment, and the workers' monthly earnings differ significantly in the same occupation depending on whether they work as casual or independent workers or as regular employees of establishments. A tailor earns Rs.403 as an employee of an establishment and Rs.400 as an independent worker, but only Rs.203 if he is a casual worker. Mechanics and repairmen are more or less equally found in all three categories, but their earnings are Rs.387 as independent workers, while Rs.273 as establishment employees and Rs.204 as casual workers. Similarly electricians earn Rs.325, Rs.457 and Rs.351 per month as establishment, independent and casual workers respectively; painters and paper hangers earn Rs.465, Rs.223 and Rs.230 in the three situations respectively.

While in most of the occupations the casual workers are earning lower than others, the casual workers group is also dominated by a number of low earnings occupations such as domestic servants, textile workers, and gardeners; and consequently the average wages of casual workers get further depressed.

III. Job Satisfaction

To the extent a sizeable proportion of the informal sector workers seem to enjoy, reasonable job security or assurance of availability of work regularly and earnings comparable with an average formal sector worker they do not seem to be very much ill-placed in comparison to their counterparts in the formal sector. A larger proportion of casual workers, however, do not enjoy these advantages. Among the independent workers the work availability is not a major problem, earnings are reasonably high, on an average, but quite a number of them are as worse off as the casual workers. The establishment workers are better off not only on an average, but majority of them are in a position which can be considered comparable with the formal sector.

The workers' expression of contentment or otherwise with their present activity reflects the above situation consistently. The workers are almost equally divided bet-

ween the satisfied and dissatisfied ones; but while over two-thirds of the establishment workers and one-half of the independent workers feel satisfied with the present work, two-thirds of the casual workers are not satisfied and would like a change. 'Inadequate' earnings obviously is the predominant reason for dissatisfaction. Irregularity of income and insecurity of work do not feature as reasons for dissatisfaction among the establishment workers, but 40 per cent of dissatisfied workers among independent and 27 per cent of them among casual workers have advanced these reasons. Irregularity of work thus is a less important reason than the low earnings for dissatisfaction even among the casual workers.

IV. Aspirations

The pattern of jobs aspired by the informal sector workers does not go strongly in favour of the hypothesis that they usually look for formal sector jobs. In fact, such a preference is clearly expressed by only 24 per cent of the dissatisfied workers (or 12 per cent of the total workers); and half of these workers happen to be employees of informal sector establishments. Among the establishment workers, only one-third are dissatisfied and of them one-half aspire for a job in the formal sector establishments, another one-third want a permanent job in any establishment,

probably because they are working with establishments currently on a temporary basis; 10 per cent want a change in the nature of work they are doing but do not have any clear preference for one sector or the other, and 10 per cent want to start their own establishments. The aspiration to start one's own establishment is found significant among the independent workers; one-third of the dissatisfied independent workers have expressed this preference. But 55 per cent of them want a regular wage paid job, of whom 15 per cent would want it in the formal sector establishments while 40 per cent would accept it in any sector. Another 11 per cent of the dissatisfied independent workers want to change the job/occupation they are presently in, without any preference for the type of establishment or sector. Among the dissatisfied casual workers 75 per cent aspire for a permanent job, but only 17 per cent have expressed a clear preference for the formal sector; 12 per cent want to start their own establishment; and 13 per cent want to change the job/activity they are in now, because the nature of their current work does not suit their health, liking and temperament.

On the whole, thus half the informal sector workers are contented with their lot because either they are happy with their present work and earnings; or, because not being

able to get any opportunity for movement to better paid sectors, have resigned themselves, to their fate. In any case, they are not actively aspiring for a change. Of those who are not satisfied with their present lot 24 per cent have shown their definite preference for a permanent job in a large establishment. A large number of workers particularly those working as independent and casual workers want a wage paid job and it would be acceptable to them even if it is within the informal sector. Thus 59 per cent of the dissatisfied workers would accept a regular job in any establishment. Of the total informal sector workers, only one-eighth are definitely aspiring for a regular job in the formal sector establishments. It, therefore, looks that the informal sector in Ahmedabad city has assumed a largely independent character in terms of its labour market. Not only most of its workers hardly get any chance to enter the formal sector, as we saw earlier, but most of them also do not seem to have much interest left in the prospects of entering the formal sector.

CHAPTER IX

Family Living

We complete the portrayal of the conditions of workers in the urban informal sector by describing some of the major aspects of their family living in this chapter. The aspects considered are : family size and structure, participation rates, employment and unemployment, household income, levels and patterns of expenditure, and housing.

I. Family : Size and Structure

The family of ^{an} informal sector worker, on an average, consists of 4.74 persons as against 5.67 persons in case of the organised sector workers : the casual workers have the smallest average size of 4.40 and independent workers the highest at 5.29 persons. Around one-fifths of the informal sector workers are living singly in the city; such workers were found to constitute six per cent among the organised sector workers in an earlier study.¹ Within the formal sector, those living alone constitute 20.53 per cent among establishment workers, 10.90 per cent among the independent workers and 24.26 among casual workers. On an average, a migrant worker's family consists of 3.84 persons as against 5.85 of a non-migrant. It may also be noted that there is a consistent relationship between the period of stay in

1 Papola and Subrahmanian, op cit. p.61.

Ahmedabad and proportion of workers staying there with their families; of the recent migrants (less than two years) only one-third have their families with them, while their proportion is 48, 57, 81, 92, 93 and 97 for migrants with a standing of 2-5, 5-10, 10-15, 15-20, 20-25 and 25 and more years.

The overall sex ratio in the population of families of informal sector workers, works out to 76 females per 100 males. The ratio does not significantly differ among the three segments but it does differ between migrants and non-migrant family: it is 70 for the former and 82 for the latter. A family on an average consists of 1.50 children (i.e. those below 15 years of age) and 3.25 adults. The children : adult ratio was found highest at 0.51:1 in the independent workers' families; while it is 0.41:1 in the families of casual workers and 0.38:1 in those of establishment workers, against the overall ratio of 0.46:1.

II. Activity Status, Participation Rates and Unemployment

Of the total population of the workers' families 37 per cent were working, seven per cent reported unemployed, 20 per cent were housewives, 15 per cent students and around 3 per cent retired.

The overall labour force participation rate among the informal sector workers' families was higher at 43.67 as

compared to around 35 in the total population of the city. Labour force participation rate was 64.54 for males and 16.67 for the female members. Around 6.5 per cent of those below 15 years of age reported to be in the labour force although only one-third of them were found working and the rest unemployed. On the otherhand, of those beyond 60 years of age, 39.29 per cent were reported to be in the labour force and 72 per cent of them were actually working. The highest participation rate (70.40) was found in the age group 25-35 followed by 15-25 age group at 61.62 and 35-50 age group at 61.37. In the age group 50-60 years it dropped to 46.46 per cent. So far as female labour force participation rate is concerned, it is highest in the age group 15-25 years at 27.05, and then gradually declines as we move on to the older age groups. It may, however, be noted that actually working females constituted the highest percentage (22.46) in the age group 25.35.

A relatively high participation rate is also reflected in a relatively high unemployment rate among the families of the informal sector workers. As against overall unemployment of around 3.5 per cent in Ahmedabad city population, there is found to be 6.41 per cent unemployment in the group considered here. Unemployment among the males is estimated to be 7.15 per cent and that among females 5.46 per cent.

Table IX - 1

Age Specific Participation Rate of Family Members
(including respondents)

	Age Group (Years)						Total
	Less than 15	15-25	25-35	35-50	50-60	60 +	
<u>Participation Rate (% working and unemployed)</u>							
a) Total	6.55	61.62	70.40	61.37	46.46	39.29	43.67
b) Male	6.84	85.44	99.70	96.48	82.27	61.96	64.54
c) Female	6.20	27.05	23.91	21.69	10.50	6.98	16.67
of which							
a) <u>Working</u>							
Total	2.07	58.15	67.19	59.63	44.87	28.11	37.26
Male	2.15	72.46	96.20	93.90	82.27	44.57	57.39
Female	1.96	12.89	22.46	19.90	7.30	4.65	11.21
b) <u>Unemployed</u>							
Total	4.48	13.47	2.71	1.74	1.59	11.18	6.41
Male	4.69	12.98	3.50	2.58	-	17.39	7.15
Female	4.24	14.16	1.45	0.79	3.20	2.33	5.46

Even if one disregards the unemployment reported in the age groups 0-15 and 60 and more years, the estimate still is quite high at around five per cent of the group population. Around 57 per cent of the unemployed are to be found in the age group 15-25, in which the incidence of unemployment is 13.47, 12.98 among males and 14.16 among females. In the other segments of the working age group the incidence of

unemployment is found to be quite low, both among males and females and there is no unemployment among males in the age group 50-60 years.

On an average a family consists of 1.75 earners and 3.0 non-earners; thus an earner has to support 2.76 persons including himself. 23 per cent of the families have no dependents though 16 per cent of such families have more than one earner. On the other hand, over half (51%) of the families have only one earner. Of course 37 per cent of these single earner families were also single member families, with no dependents, but 22 per cent of them have five or more dependents. The dependency ratio was slightly higher at 2.80 among the independent workers than among the establishment workers (2.60) and casual workers (2.40).

Of the total earners in these families 87 per cent were males and 13 per cent females. But the principal earners were predominantly (94%) males; while among the secondary earners, the females also had ^a significant proportion (22%). The earners mostly belonged to the age groups 15-25 and 25-35 years; but predominance of this age group was more conspicuous in case of principal earners than of the secondary earners. The older age group (beyond 35 years) made up 38 per cent and, those above 50 years 20 per cent among secondary earners, while the respective percentages for the principal earners were 28 and 6 only. Since principal earners status is defined

here in terms of the earner with the largest individual income, it seems that relatively younger earners have higher average earnings than the older ones.

While almost one-third of the earners have had no schooling at all, 54 per cent have passed at least primary school examination, 22 per cent SSC or higher examination and 17 per cent have gone to college. The percentage of those who have at least passed SSC is 22.81 among principal earners and 21.56 per cent among secondary earners; and, 22.34 per cent among male earners and 8.02 per cent among female earners. Matriculates and above constituted around 11.5 per cent among female principal earners, though only 6.79 per cent among the female secondary earners. But they constituted 25.67 per cent among male secondary earners, and 23.51 per cent among the male principal earners. Thus there is only a marginal difference in the educational levels between the primary and secondary male earners, but a very high difference exists between the male and female earners, and between principal and secondary female earners.

III. Family Income and Expenditure

The average income of an informal sector worker's household works out to Rs.466.91 per month : only 3.44 per cent families have a monthly income of less than Rs.100 and 16

Table IX - 2

Distribution of Families by Monthly Income and Size

Income Group (Rs.)	Family Size (No. of members)												Total	%
	1	2	3	4	5	6	7	8	9	10	11	12 +		
less than 100	37	1	5	-	1	1	-	-	1	-	-	-	46	3.44
100 - 200	80	15	18	24	14	4	3	4	1	4	-	-	164	12.27
200 - 300	74	20	30	29	29	23	16	7	1	2	-	-	236	17.65
300 - 400	40	15	30	31	49	32	25	11	2	-	-	1	236	17.65
400 - 500	12	7	17	23	32	38	26	11	7	2	1	-	176	13.16
500 - 750	8	10	22	25	19	51	39	24	10	12	4	1	225	16.83
750 - 1000	5	2	6	18	25	14	24	23	13	7	4	7	143	11.07
1000 +	-	2	6	8	16	15	19	7	11	8	5	9	106	7.93
TOTAL	256	72	134	158	185	183	152	87	46	32	14	18	1337	100.00
Average family income	214.62	327.37	352.34	432.44	493.25	506.98	583.98	621.57	708.54	732.06	801.86	1039.03	466.91	
Per capita income	(214.62)	(163.68)	(117.45)	(108.11)	(98.65)	(84.50)	(84.14)	(77.70)	(78.73)	(73.21)	(66.82)	(69.27)	(94.28)	

per cent less than Rs.200; while 36 per cent have a monthly income of over Rs.500 and eight per cent of over Rs.1000. A consistently positive relationship is found between the size of the family and average household income. Consequently, we find that the per capita income of the families in different family income ranges averages to around the ^{overall} average of Rs.94.28, although 12.49 per cent families have a per capita income of less than Rs.50. Almost half (49%) of the families have a per capita monthly income of over Rs.100.

The average monthly household expenditure on the other hand, worked out to Rs.336.36 and per capita expenditure to Rs.70.96. The household expenditure naturally varies in direct relation to the household income, so that three-fourths of households with a monthly income of less than Rs.100 also have the expenditure in the same range and 80 per cent of those with income range between Rs.100 to Rs.300 also have expenditure in the same range; but of those with income beyond Rs.500 per month, majority are in the lower expenditure ranges. Of the households with earnings of Rs.1000 or more, only 18 per cent have expenditure of that order, and 82 per cent have expenditure less than Rs.1000. Majority of families (77%) have some surplus of current income over current expenditure : over one-third of them of an amount of Rs.150 or more and over one-half of Rs.100 or more. Of the 21 per cent families which show a deficit in the monthly

budget, 55 per cent have a deficit of less than Rs.50 and 23 per cent of Rs.100 or more.

Significant economies of scale are observed in the household expenditure. We have noticed earlier that with an increase in family size, the number of earners also increases, and consequently, the total family income also increases, although less than proportionately, thus making changes in per capita income over the different family sizes and income ranges vary only marginally. Therefore, a significantly less than proportionate increase in family expenditure with an increase in family size is not due to the lack of income in general. In any case, on an average, the family income exceeded family expenditure and per capita income exceeded per capita expenditure in all family sizes. Therefore, a steady decline in per capita expenditure with increase in family size, (as observed from the figures in Table IX - 3) can be attributed mainly to the economies of scale in household expenditure.

Such economies, however, do not seem operating significantly when we look at expenditure in relation to family income range rather than the family sizes. The average monthly expenditure of the household increases more or less in proportion to the change in income range. Not only the total expenditure, but also the expenditure on most of the items of expenditure increases more or less in proportion

Distribution of Families by Size and Per Capita Expenditure

Family Size (Nos.)	Total No. of workers	Per Capita Expenditure (Rupees)						Average per capita expenditure	Average per family expenditure
		Less than 10	10-20	20-30	30-50	50-100	100 +		
1	256	2	5	6	17	38	188	200.39	200.39
2	73	1	-	1	4	25	42	124.67	249.34
3	134	-	-	2	10	76	46	95.06	285.19
4	158	-	-	6	19	106	27	75.83	303.34
5	184	-	2	1	39	110	32	63.43	317.15
6	184	-	1	3	59	98	23	55.83	334.98
7	151	-	2	6	48	83	12	50.83	355.82
8	87	-	2	4	32	43	6	55.85	446.76
9	46	-	-	3	15	24	4	47.97	431.43
10	32	-	-	1	14	15	2	58.04	580.40
11	14	-	-	-	3	9	2	61.81	679.95
12 +	18	-	-	1	9	6	2	44.25	663.75
TOTAL	1337	3	12	34	269	633	386	70.76	336.36

to income. Consequently, the pattern of consumption expenditure does not show any significant variation among the income groups. In the six income ranges between Rs.100 and Rs.1000, the expenditure on food remains between 61 and 65 per cent, it is 58 per cent for income range below Rs.100 and 56 per cent for income range above Rs.1000. The average

Table IX - 4

Distribution of Families by Average Percentage
of Expenditure on Various Items

Family Income Groups (Rs.)	Average Percentage Expenditure					Total
	Food	Cloth- ing	Educat- ion	Ceremonies entertain- ments	House Rent	
1 Less than 100	58.20	8.95	0.64	26.84	5.37	100.00 (73.88)
2 100 - 200	64.61	8.05	0.28	21.79	5.47	100.00 (153.69)
3 200 - 300	65.17	7.86	0.94	19.59	6.43	100.00 (219.21)
4 300 - 400	64.86	7.60	1.67	19.56	6.31	100.00 (273.60)
5 400 - 500	61.80	8.20	2.07	20.23	7.70	100.00 (343.72)
6 500 - 750	62.54	8.08	2.35	20.03	7.00	100.00 (418.29)
7 750 - 1000	61.46	9.57	3.14	19.93	5.90	100.00 (490.00)
8 1000 +	56.26	11.99	3.57	23.35	4.82	100.00 (756.41)
TOTAL	61.90	8.90	2.25	20.66	6.29	100.00 (336.36)

(Figures within brackets indicate average total household expenditure in the concerned income range)

expenditure on food for the entire sample comes to around 62 per cent. Similarly, expenditure on clothing also constitutes a percentage only marginally lower or higher than average (9%) in the different income groups. So does the expenditure on house rent which average to around six per cent. Expenditure on ceremonies, entertainments etc., shows some variation around the average of 21 per cent, but these variations have no consistent relationship with income levels. Education, which claims on an average 2.25 per cent of family expenditure, is the only item on which the relative expenditure consistently increases with increase in income range. Thus those with incomes less than Rs.300 spend less than one per cent, those in the income range Rs.300 to Rs.500 spend around two per cent and those with above Rs.750 as income spend over three per cent on this item. On the whole, it looks that in spite of significant variation in income levels within it, the group of informal sector workers does not reveal any significant variations in levels of living and pattern of consumption expenditure.

IV. Indebtedness

Though only 21 per cent families show a deficit in their current budget 40 per cent of the families reported indebtedness to varying extent, mostly of an amount larger than Rs.1000 : 61 per cent have debts over this amount and 14 per cent over Rs.5000. There is no consistent relationship between family

income levels and proportion of indebted families : 41 per cent of those with a household income of less than Rs.100 are indebted but 44 per cent of those with an income of Rs.400 and Rs.500 and 31 per cent of those with an income of Rs.750 to Rs.1000 are also indebted. There is, however, a consistent relationship between per capita income and indebtedness : two-thirds of families in the per capita income of less than Rs.20, 79 per cent of those in the income range of Rs.20-30, 63 per cent of those in Rs.30-35, 48 per cent of those in Rs.50-100, and 26 per cent of those with Rs.100 or more per capita income are indebted. Further, 60 per cent of those with deficit budget are indebted while only 34 per cent of those with surplus budget are in debt. The percentage of indebted households also consistently declines as we move from large to small deficit and then smaller to larger surplus in the budget. But the fact that a sizeable proportion of those with high family and per capita income and of those with excess of current income over current expenditure are indebted, and most of the loans, are of a substantial amount (Rs. over 1000) suggest that a sizeable part of the indebtedness of the informal sector workers' families is on production account. Some indication to this effect was also found earlier in the analysis of holding of productive equipment and assets, particularly in case of the independent workers. In the case of establishment workers

and casual workers, acquisition of property and expenditure on ceremonies may account for the larger-sized debts. Yet borrowing to meet current expenditure is a fact that is quite evident in a sizeable proportion of indebted families, with deficit in budgets and low per capita incomes.

Over four-fifths of the loans have been taken from friends and relatives; and another 12 per cent from money lenders. The institutional sources, cooperative societies and banks, account for 7.5 per cent loans, most of which are of relatively larger amount. Usury and exorbitant rates of interest are not found common : true, 20 per cent of the loans from money lenders carry an interest of 25 per cent per annum; but in 67 per cent of the total cases no interest is paid. In all, five per cent loans carry interest beyond 25 per cent, 13 per cent between 15 and 25 per cent and 15 per cent between 10 and 15 per cent per annum.

V. Housing

The last aspect relating to the family living conditions of the informal sector workers considered here concerns their residential accommodation. We find that 86 per cent of the workers have some independent accommodation for themselves while the rest 14 per cent either sleep on pavement (64%) or live with friends or relatives (36%). Of those with no independent accommodation four-fifths are living alone while one-

fifth also have their families with them. All but 3.5 per cent of workers having their families with them have independent accommodation, while of those living alone 60 per cent have no independent accommodation and two-thirds of them sleep on pavement.

Only one-fifth of the workers own houses in which they live and about two-thirds live in rented accommodation. The most often available accommodation is a house in a chawl : 42 per cent of those with independent accommodation live in this type of houses. The next important type of accommodation is a house in jhopadpatti (23%) followed by flat in a housing colony (19%) and a tenement (16%). The distribution of the type of accommodation differs significantly between the rented and owned categories : among the rented, chawls account for 48 per cent, jhopadpatti 26 per cent, flats 14 per cent and tenements 12 per cent; while among owned houses, these four categories account for 25, 12, 35 and 28 per cent respectively. Thus while 63 per cent of the owned houses are either flats or tenements, of the rented ones 71 per cent are either in chawls or jhopadpattis. It may be noted that all chawls and jhopadpattis accommodation generally consists of one room and those in flat and tenements generally have at least two rooms. Water and sanitary facilities are mostly available in all types of accommodation except jhopadpattis. Such facilities are reported available independently in majority of cases : water in 66 per cent and sanitary facilities in 54 per cent cases.

The housing condition of informal sector workers is thus not found to be as miserable as is generally alleged in case of working classes in most of the industrial metropolises. We, however, do not have detailed information regarding the quality of housing in terms of size, construction and styles. But overwhelming majority particularly of those with family in Ahmedabad, have independent accommodation, a sizeable proportion of it also consists of flats and tenements and a significant proportion of such accommodation is owned by the workers themselves. The independent workers seem to be much better off than other in terms of having accommodation, 98 per cent of them have independent accommodation, as against 34 per cent among establishment workers and 82 per cent among the casual workers. But in terms of the quality of accommodation, establishment workers seem better off as compared to the other two groups. Of them, 55 per cent live in flats or tenements, while of the casual and independent workers three-fourths live in jhopadpatti or chawls. As a result, while 85 per cent of establishment workers have water and 80 per cent sanitary facilities available in their houses, only 47 per cent have water and 40 per cent sanitary facilities available in their accommodation in the case of independent and casual workers. This observation more or less goes to support the hierarchy among the informal sector workers that we had hypothesised in earlier parts of the study.

CHAPTER X

Summary and Conclusions

The present study started with the following three primary objectives : to provide a data base on a segment of the urban economy about which little is known; to identify the processes of income and employment generation in the informal sector and assess its role and potential in the city economy; and to portray the working and living conditions of the workers in this segment of the urban economy. The foregoing chapters have attempted to fulfill these objectives to the extent possible with the help of data collected from informal sector units and workers. The present chapter attempts to recapitulate the main findings of the study in its various parts to provide an integrated picture of the informal sector in Ahmedabad city with a view to drawing certain analytical and policy conclusions and implications on the role of informal sector in the development of urban economy. The summary given in the following pages, more or less follows the same order as the description and analysis in previous chapters.

I. The Concept of Informal Sector

The concept of informal sector is generally defined in terms of multiple criteria : size of units, degree of formalisation of work rules and division of labour, technology, degree of organisation among workers etc. All these

are continuous variables and cut-off at any point of the continuum is inevitably arbitrary. Further, the concept does not seem to have an independent meaning, it derives a meaning only when contrasted with the formal sector : what is not one is another. Most of the time, therefore, the empirical identification of the informal sector is done on the basis of a single criterion, viz., size, for which the cut-off point is provided generally by the application or otherwise of certain institutional controls and regulations. It so happens that such a demarcation generally also yields contrasting characteristics between the two sectors, in terms of formalisation of production relations, technology, productivity, hiring practices and standards, and workers' earnings. But such comparisons are at the mean levels and the continuity of variables and submerging of one sector into another at the margin cannot be ruled out.

We followed the convenient method of empirically defining the informal sector in terms of small establishments, employing less than 10 workers, and independent workers. Although such a demarcation proved quite a convenient and effective tool for empirical work of data collection and portrayal of characteristics of that sector of the urban economy which consists of relatively smaller sized units of production, it proved only partially effective in the validation of the concept of informal sector in all its characteristics.

The empirical identification of the concept particularly failed to conform to theoretical notion of the 'informal' sector in a sizeable portion of the sample on certain economic counts : scale of production and turnover, capital intensity, productivity and surplus generation. In most of the manufacturing establishments and commercial establishments these variables suggested a continuum rather than a break at a point which could facilitate a sharp analytical distinction between the two sectors. The only variable that showed a sharp cleavage between the two sectors is wages, suggesting thereby that the labour market can be demarcated between the formal and informal sectors with greater ease than the economic activities. But labour market is only one aspect of the urban economy and while an analysis of its segmentation is important, an analysis of economic activity based on some analytically distinct categories is essential for a proper understanding of the structure of an economy. Empirical material provided by the present study points towards a distinction based on mode of production, defined in terms of use of wage labour as one such basis. On this basis, broadly, the independent workers; casual workers working for households; shops, eating houses, and repair units in the manufacturing sector qualify for inclusion in the informal sector. By and large, such a definition of informal sector also finds empirical validation from our study in terms of

such characteristics as formalisation of production process, technology, productivity, surplus generation and labour market processes. This proposition has, however, emerged as a suggestion for subsequent analysis and has not been adopted as basis of analysis in the present study.

II. The Size of Informal Sector

For the purposes of this study we have adhered to be empirical identification of the concept based on size as defined earlier; and we presume that despite the analytical shortcomings it has been exposed to by the study, it has the merits of convenience and meaningful significance from a policy viewpoint. According to this definition ⁴⁷~~45~~ per cent of the workers in Ahmedabad city are found engaged in economic activities in the informal sector : 25 per cent of them in small establishments; 14 per cent as independent workers and seven per cent as casual workers working for households. The proportion of informal sector is over half in all divisions of economic activities except manufacturing where it is 27 per cent. Three divisions of economic activity, manufacturing, trade and commerce and other services account for 78 per cent of the total informal sector employment, contributing 24, 29 and 25 per cent respectively; as compared to 44, 20 and 22 per cent as their contribution in the total employment in the city. The extent of informal sector has increased from

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around 40 per cent in 1961 to 46 per cent in 1971, primarily because of the change in the structure of economic activity in the city in favour of non-manufacturing activities such as construction, trade and commerce and transport which tend to have a large informal component, and in favour of non-textile sectors within the manufacturing sector, which again have a larger informal component than the textiles in Ahmedabad. Since the change is still continuing in the same direction, one would expect further increase in the relative size of the informal sector till such stage when the relatively slow growth of the organised sector itself will put a check on the growth of informal sector. It seems that such a situation may not be far off in case of Ahmedabad, as the advantages of the informal sector in terms of ease of operations and low capital requirements per unit of output are fast disappearing. A higher than 50 per cent informal sector in terms of employment, may become unsustainable resulting into the virtual stagnation in the economy and further deterioration in the working and living conditions of workers in this sector.

In view of the lack of required data on a reliable basis, the estimation of the income of the city and that generated in the informal sector is a hazardous exercise. Therefore, the estimates given in the study have to be viewed cautiously. While we do not vouchsafe for their absolute precision, we do

believe that they fairly serve to indicate the broad proportions of the two sectors. It is estimated that the informal sector contributes around 28 per cent of the GDP generated in Ahmedabad city : the informal sector establishments along contribute 23 per cent leaving only 5 per cent to be shared between the independent and casual workers segments. Within the establishments segment also, the major contribution is from the manufacturing establishments. The variations are mainly on account of the productivity differentials between the three segments of the informal sector, and only partly because of differences in employment size of different segments.

III. Income and Employment Generation

Viewed against the background of growth in the recent past, and levels of productivity, the only segment of informal sector which shows a potential for making significant contribution to generation of employment and incomes consists of small establishments. The independent workers are doing well in terms of earning a livelihood, but their contribution to employment and income is very small; and on an average they hardly generate any surplus over their imputed subsistence wages, for reinvestment in their business. Within the establishments segment manufacturing has registered the fastest growth in output and employment and has also shown the most favourable employment-output ratio. A turnover of Rs.1 lakh generates employment for 1.5 workers in manufacturing, 0.18 in

trade and 0.25 workers in services. Hotels and restaurants have, of course, grown faster and their employment turnover ratio is also the highest, but again their contribution is insignificant and their growth is highly dependent on other activities in the city.

Thus the manufacturing establishments alone seem to be the informal sector's hope for sustained growth. It is found that these establishments have a labour productivity quite comparable with their formal sector counterparts, particularly in metal products, machinery and transport equipment groups. On the other hand, capital intensity in the informal sector establishments is generally one-half of that obtaining in the formal sector establishments. It may, however, be noted that the capital requirements per worker as well as per unit of output have been increasing fast and the capital intensity gap between the two sectors is fast declining. Also, while the advantage of the informal sector establishments in terms of capital intensity of employment is limited upto a capital size of around Rs.50,000, increase in capital intensity leads to more than proportionate increase in value added per worker in all capital sizes.

Thus these establishments can generate substantial income though not equally substantial employment over time. Yet the employment generated per unit of capital and output in them will continue to be higher than in the formal sector establish-

ments, although at a decreasing rate, for some time to come. They have also been quite at ease in matters of raw material availability, marketing and finance and do not expect serious bottlenecks in expansion. There are, however, three major caveats that need to be added while commending growth of informal sector on a preferential basis. One, in their attempt to continue to be exempt from provisions of certain labour legislation, they may try to minimise the use of labour and over-capitalise, thus leading to a decline in employment potential, on the one hand, and sub-optimal utilisation of capital, on the other. Secondly, this may further depress the earnings and working conditions of workers in these establishments, although labour productivity may go on increasing. Already there is evidence thrown up in this study to suggest that degree of exploitation of workers is certainly higher in this sector than in the formal sector. Hours of work are not regulated effectively and therefore, a sizeable proportion of workers have to work for over 10 hours a day. Wages in the manufacturing establishments in the informal sector are around one-half of those in the organised sector though labour productivity does not differ between them significantly. Last, but most important, is the fact that the informal sector activities which have shown better performance and continue to have a good potential for growth of income and employment are the ones which are linked up with the formal sector in terms of market and technology; and therefore their growth is highly dependent on the growth of the formal sector.

The conclusion that emerges out of the above discussion of our finding is somewhat paradoxical : if the informal sector is to serve as a major instrument of income and employment growth and equity, it needs to be made 'formal' and the formal sector needs to grow fast! If the employment advantage of the informal sector is to be retained, then the informal sector units will grow to a size which will attract the provisions of the Factories Act and other legislations. Similarly, if the workers in these establishments have to have a fair share of productivity and a level of living comparable to organised sector workers, wages need to be regulated either statutorily or through unionism. In either case the units will get formalised institutionally. Lastly, in order to lead to a fast growth in the informal sector, in response to linkages generated by the growth of informal sector, the former has to become technologically integrated with the latter, thus leading to technological formalisation as well of the informal sector.

IV. Informal Sector Workers as a Socio-Economic Group

An average informal sector worker has some characteristics which significantly distinguish him from the average formal sector worker. An informal sector worker is on an average eight years younger at 27 years, than the average formal sector worker, suggesting thereby that the informal sector attracts (or absorbs) the fresh entrants in the labour market, more often than does the formal sector. There are only six females

out of 100 informal sector workers, while their percentage is around 10 among the formal sector workers. Two out of three informal sector workers are married as against three out of four formal sector workers. An informal sector worker, particularly a casual worker, belongs to the scheduled caste/scheduled tribes more often than does a formal sector worker. An informal sector worker has undergone, on an average, schooling for five years against eight years in the case of a formal sector worker. Illiterates constitute 28 per cent among the informal sector workers as against 15 per cent among organised sector workers.

Within the informal sector there seems to exist a hierarchy of workers in the establishments, independent workers and casual workers in that order, in terms of their socio-economic characteristics. In the three segments, the percentages of illiterates is 9, 36 and 42, and of those with matriculation and above education 42, 7 and 7, respectively. The percentage of scheduled caste/tribes is 7, 11 and 27 and local-outsider ratio is 56:44, 54:46 and 39:61 among the three categories respectively. As if the proportion of women workers is also a disadvantageous characteristic, it varies between the three segments in the order of 2.5, 5.0 and 10 per cent respectively. Lastly, the major occupations in which the establishment workers are engaged are white collar ones or involving little manual work (salesman, shop assistants, accountants and clerks);

the predominant occupations of the independent workers consist of vending of goods repair and work involving some fineness and skill, and transporting of goods and passengers - a mixed group involving some skill, but mostly manual work; and the main occupations in which the casual workers are engaged are predominantly manual, unskilled industrial occupations, domestic service and construction work. Thus the degree of manual component of jobs also differs among the three segments in the same order as other characteristics.

IV. Migration

The informal sector has a smaller proportion of migrants among its workers than the formal sector. The phenomenon goes against the hypothesis that the informal sector with its free entry condition and 'absorptive' character tends to subsume most of the new entrants - local as well as migrants, in the urban labour market. It tends to suggest that the migration is selective so that the migrants are better quality workers with easier access to the organised jobs and therefore, get direct entry into the formal sector. This proposition, however, does not have much empirical support. What stands to logic is that the migrants do initially enter the informal sector, but at least some of them get graduated to the formal sector over a period of time. With this continuous flow of migrants from the informal to the formal sector, while the migrant

component of the former remains more or less constant, that of the latter increases. We find that the migrants among the organised sector workers have had a much longer stay in the city, than the migrant workers of the informal sector : the average duration of stay in the city is 19 years in the case of the migrant workers of the formal sector against 11 years of those of the informal sector. This fact, under certain assumptions, goes to support the 'vestibule' or 'apprenticeship' hypothesis of the informal-formal sector labour market interaction. Findings in other parts of the study, however, suggest that this phenomenon is also a matter of past now.

The migrants were generally young at the time of migration : four-fifths of them were below 25 years of age. Yet over half of them were married. Of the women migrants an overwhelming majority was married at the time of migration, they migrated mostly to join their husbands. In fact, over two-fifths of migrants came to the city with purposes other than seeking work; and 57 per cent migrated with an economic motivation. Of the latter 90 per cent came to Ahmedabad to seek a wage paid job and 10 per cent with an idea of starting their own business. Most of the migrants had either no work at their native place or were engaged in work on very low wages. Only 36 per cent migrants owned land, two thirds of them below five acres each. Their families

consisted of over five persons on an average, of which 2.4 were working, one person was unemployed and the rest were children or aged. Around one-third of the families had a per capita income of less than Rs.30 per month and two-thirds had a per capita income of less than Rs.50 per month (at 1976 price level). Over one-third of the families were also indebted. These facts suggest that most of the migrants were pushed out of the native place rather than pulled by any definite prospects in the city.

Yet an almost inevitable possibility of substantial income gains must have had an important influence on their decision to migrate to the city, particularly in the case of those who were engaged in some low income earning activity, who constituted the majority of the migrants. The fact that three-fourths of the workers earned at least 50 per cent more in the first job they took up in Ahmedabad than what they earned at their native place, and such gains were much higher in case of those who were engaged in wage paid jobs before migration, goes to suggest that the expected current earnings differentials provides the direct and immediate motivation for migration; higher expected life-time earnings would act only as a somewhat indirect and abstract motivating factor.

The current income advantage on migration is clear enough in rural-urban earning differentials, and it does not seem

necessary to discount it by the probability of not getting work in the case of migrants in Ahmedabad city, because most of the workers had either not to wait before starting work or had to wait for a short period, despite the fact that virtually none of them had a job fixed or assured before migration. The average waiting period works out to be around 45 days, but over half the workers got work without any waiting period at all. The travails of migration and waiting, if any, were further reduced by the fact over 90 per cent of those who had to wait, had some relative or friend to stay with, most of the time without any obligation of payment for board and lodging.

Thus migration in Ahmedabad has been a smooth and relatively painless process. The cost of migration in terms of waiting and loss of income has been minimal, and the gains of migration substantial. Yet many migrants have not yet decided to be a part of the city in so far as they keep effective links with their native places. Majority of them pay regular annual visits to their native places, even though mostly for social purposes; 70 per cent of migrant workers have dependents still living at the native place for whom they send remittances on an average of Rs.500 per annum. Obviously they have no intention of snapping their links with the native place and may revert to it in times of adversity

or in the old age. It may be noted that the maintenance of such links is found more common among the migrants working in the informal sector than among those in the formal sector, because of the relative insecurity of work and uncertainty of uninterrupted flow of income in the case of the former.

V. The Labour Market : Job, Employment and Earnings

Although it is generally believed that the migrants or local entrants in the labour market enter the informal sector with the ultimate objective of securing a berth for themselves in the formal sector, the informal sector workers in Ahmedabad do not have much justification in retaining such hopes, if they had ever entertained them. Most of them are in the informal sector for over ten years. Movement of workers from the informal to the formal sector, as suggested by the differences in the age structure of workforce in the two sectors noted earlier, may have taken place to some extent in an earlier period. But a relative slack in the growth in the major organised sector activity during the last one and a half decades seems to have drastically reduced the opportunities for such movements.

As a matter of fact a reverse trend seems to have set in to a certain extent. A comparison of the employment status of a worker in the beginning of the career and at present suggests a movement from the establishment employee status

to that of an independent worker. There is evidence to suggest that a number of workers having made such moves are the 'rejects' of the formal sector establishments. In such a situation, the informal sector labour market seems to have been insulated from that of the formal sector : half the informal sector workers do not aspire for a change, those aspiring for a change are found mainly among the independent and casual workers and most of them want a regular wage paid job in either sector. Only 24 per cent of those aspiring for a change clearly prefer the formal sector. Thus the informal sector labour market is tending towards its virtually complete segmentation from its formal sector counterpart.

Half the workers have changed jobs or activities, mostly once; and in five out of six cases, voluntarily for improving earnings. Job information passed in almost all cases through the informal channel. Switch-over from one job to another was found easy : almost all the workers could find alternative jobs after leaving one, without being forced to remain unemployed. In their present activity or job also, the informal sector workers do not face any serious problem of irregularity, or non-availability of work. Most of them find work for practically the whole month and whole year, except a few casual workers who seem chronically underemployed.

Employment in the informal sector being predominantly of an 'absorptive' character rather than determined by demand

for labour at a given wage rate, the earning of workers are much below those obtaining in the organised sector. The informal sector earnings, on an average, are about fifty per cent of those obtaining in the organised sector : the difference to some extent conforms to the productivity differences between the two sector. But within the informal sector, wages do not differ among different activities as significantly as productivity levels. There seems to be a ruling wage which more or less prevails in all activities irrespective of the productivity differences. Such a phenomenon can well be expected in a situation of abundant stock and regular inflow of labour supply where demand variables like productivity do not play any effective role in determining wages. There is a reserve army of labour, which is always available to enter any activity which shows some promise and thus eliminate any excess of earnings in that activity over the average, that may temporarily exist. In such a situation the wages get determined at the subsistence level, which is what a monthly earnings of Rs.296 of an informal sector worker with an average family consisting of three adult consumption units can be considered in the given cost of living in Ahmedabad in 1977. Around one-third of the workers, however, earn less than Rs.200 per month. While the establishment employees and independent workers on an average earn much higher than average and have

only a small percentage among them with earnings below average the casual workers on an average earn Rs.190 and 57 per cent of them earn less than the average. The difference is, to some extent, due to the different occupation mix, but mainly on account of significantly low wages of casual workers even in the same occupation.

Even though informal sector workers are certainly worse off than those in the formal sector in terms of earnings and security of work; they still have availability of work assured on a continuous basis and have earnings which at least enable them to make both ends meet. On the other hand, the opportunity of graduating to the formal sector is highly limited. Due to the combination of these considerations, half the informal sector workers prefer to keep themselves happy and satisfied with their present lot rather than worrying about their possible movement to a more secure and better paid formal sector job. True, that those dissatisfied and aspiring for a change constitute around one-half : ~~xxx~~ two-thirds among the casual workers, one half among independent workers and one-third among the establishment workers, but most of these aspirants would be ~~x~~ happy if they got a regular wage paid job in an establishment even in informal sector itself. This observation goes contrary to the common hypotheses relating to the inter-sectoral movements of workers and workers' motivation in accepting low paid jobs in the informal sector only as a temporary phase of their career. In fact it goes

to suggest a virtual segmentation of the urban labour market into the two parts. It may, however, be noted that within the informal sector there exists a significant urge on the part of the casual and independent workers to get a regular job in establishments. Such a phenomenon suggests the workers preference for a degree of 'formality'. It can be interpreted as a validation of the common hypothesis if the informal sector is so defined as to exclude any establishment which employs wage labour on a regular basis. In practice, however, even this urge of the informal sector workers does not seem likely to be fulfilled.

VI. Levels of Living

The average family size of an informal sector worker is smaller, than for the entire population primarily on account of the sizeable proportion of recent migrants in the informal sector, particularly among the casual workers who are living without family in the city. But the earner-non-earner ratio is higher among them than in the general population. The labour force participation rate is also higher among them by around eight percentage points, but incidence of unemployment among their family members is also higher than in the general population. Most of the unemployed, as usual, are fresh entrants in the labour market. Of those who are working one-eight are women but most of them are secondary earners in the family. The principal earners and secondary earners in

general have no difference in characteristics such as education, but a principal earner is on an average younger than the secondary earner. A female earner is, however, much less educated than a male earner, which may be a mere reflection of the population characteristics.

With an average number of 1.75 earners per family, the monthly household income of the informal sector workers averages to Rs.467 : around one-fifth have less than Rs.200 per month, but they are mostly smaller sized families. In fact, the size of income increases more or less in proportion with the size of family thus keeping the per capita income more or less the same. Per capita income works out to Rs.94, only 12.5 per cent families have a per capita income of less than Rs.50 per month which can be considered the poverty line given the Ahmedabad cost of living in 1977. Most of the households have a surplus of income over current expenditure, yet a sizeable proportion of families are indebted. A few of them seem to have borrowed for meeting consumption needs while most of them have borrowed substantial amounts presumably to acquire productive assets or property.

Significant economies of scale are observed in household expenditure, in terms of the size of family; per capita expenditure steadily declines with increase in family size, but such a relationship is not found to exist between income levels and per capita expenditure. Nor is any significant evidence found

to support the hypothesis of change in consumption pattern with varying income sizes. In fact, the percentage expenditure on various major items remains more or less constant over the various ranges of income between Rs.100 to over Rs.1000, except in case of education which shows more than proportionate increase in relative expenditure with the increase in incomes. But education claims only a very small percentage of total expenditure. The pattern of living does not show ^m such variations despite significant variations in household incomes probably because, the per capita expenditure shows much less variations than the per capita income, as a result of borrowings at the lowest income levels and a high rate of savings at higher income levels.

The housing condition of the informal sector workers is not miserable though it cannot also be considered satisfactory. Around 10 per cent workers, mostly living alone, have no accommodation, and live either on pavements or at place of work. But overwhelming majority of those who live with families in the city have independent accommodation, mostly in chawls and jhopadpatti; and most of them also have water and sanitary facilities available independently. No doubt, the casual workers are worst off and the establishment workers are better off than others, in terms of accommodation as in regard with other characteristics.

VII. Major Analytical and Policy Implications

The present study has dealt with a large number of aspects relating to production and workers in the informal sector in the urban economy of Ahmedabad. It has been possible to broadly estimate the employment and income contribution and potential of this sector and to portray the characteristics of working conditions and pattern of living of workers engaged in this sector. The study has thrown up a number of hypotheses which need to be further verified in detail as well as with wider coverage, so as to reach some definite conclusions for use in policy formulation on desirable structure of economic activity, industrialisation and urbanisation.

The informal sector in an urban economy serves very useful function both in terms of providing a significant part of goods and services and of providing employment to practically the entire residual labour force. It, however, deserves neither a special disfavour nor special treatment as a matter of development strategy. Its growth mainly depends on the fortunes of the formal sector : both a decline and an acceleration in growth of the latter affects it favourably in terms of size. The desirable pattern of the informal sector growth is, however, the one induced by the accelerated growth of the formal sector. For, the increase in its size caused by the decline in the growth of the formal sector is, most of the time, characterised by 'absorption' rather than

increase in 'productive' employment of workers in the informal sector. The activities which promise better productivity and earnings in the informal sector are the ones which are vertically linked up with the formal sector through market and technology. Therefore, a strategy of development emphasising independent growth of the informal sector may be self-defeating both for the growth of incomes and employment.

In fact, the dichotomous frame of analysis of an urban economy fails to throw much useful light on the analytical and policy issues relating to urban development. The observed continuum in size, technology, and other characteristics does not permit a simple classification of production units into the two sectors. Moreover, it is a static frame which tends to disregard the transitory character of most of the variables used for classification, size, technology, organisation, etc., No doubt, despite the struggle by the smaller units to grow in size large, the simultaneous existence of unit of varying sizes will always persist, but it is rather unlikely, and also undesirable that they would remain unintegrated with each other in terms of technology, markets and organisational structures, in a growing and dynamic economy. Thus, while large-small coexistence is quite consistent with growth and development, persistence of formal-informal sector dichotomy may characterise stagnation and decay. Promotion of small sized

units may even offer some advantages in terms of employment and reduction in overhead costs, and of their contribution to growth and development, but they need not necessarily be 'informal' to the extent it implies outmoded technology, primitive organisation structure and unregulated conditions of work and high degree of exploitation of workers. In fact, our study has thrown up some evidence to show that the major contribution to the urban economy and its growth has been made by units which are small but have technological and market characteristics of the formal sector units. Small manufacturing units are found to be the key segments of the 'informal' sector in this context, but in terms of technology, productivity and marketing characteristics they compare reasonably well with the units in the formal sector. In fact, most of them are technologically and market-wise integrated with and grow and prosper on the basis of their relationship with the units in the organised sector.

The labour markets of the two sectors, however, do not seem to be well integrated with each other. The persistence of sharp differences in wages between the formal and informal sector suggests that the swelling of city labour force by migrants and new entrants in the internal labour force, does not affect the formal sector wages. The formal sector is characterised by restricted entry by means of standardised

and artificially raised hiring norms, the informal sector on the other hand is an 'open house', with no restrictions on entry. Consequently, the organised sector workers enjoy protection from the pressure of excess labour supply, in the form of statutory regulation, unionism and also employees' hiring practices, while the informal sector wages are mainly market determined, and therefore low. Efforts to develop informal sector independently of the formal sector would prove in this context not merely self-limiting as mentioned earlier, but will also lead to increasing segmentation of the urban labour market into two sections and wider cleavage in the working and living conditions between the workers in the two sectors. Since the informal sector workers come from the relatively more disadvantaged socio-economic groups the labour market segmentation has serious implications for socio-economic disparities among different classes of society. An integrated development strategy based on economic and technological linkages between large and small units, on the other hand, would serve the objectives of growth and reduction in inequalities more effectively. It would not merely enable higher growth of urban incomes, but will also lead to technological integration of large and small units, greater interaction between the labour markets of the two sectors, and therefore, reduction in wage disparities.